

**UNIVERSITY OF KWAZULU-NATAL**

**A SKILLS AUDIT OF SELECTED  
PIETERMARITZBURG SMALL MEDIUM ENTERPRISE  
(SME) OWNER-MANAGERS: A CRITICAL  
ASSESSMENT**

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**A dissertation submitted in fulfilment of the requirements for the degree of  
Master of Commerce**

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**2016**

## DECLARATION

I, Cynthia Mlambo declare that

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Date: 27/03/2017

## ACKNOWLEDGEMENTS

I would like to express my greatest appreciation to the following:

- My heavenly Father, for giving me strength, wisdom and for making Jeremiah 29:11 come alive in my life. Thank you Father for the good plans that you have for me, the plans that my mind cannot comprehend.
- My mother, Stella Bangwayo, for your constant support, encouragement and love. Thank you mom for believing in me and for being the best mother to me. This dissertation is dedicated to you. I love you mom.
- My supervisor, Prof Ziska Fields, for your expert advice, guidance, motivation and patience. May the Lord continue to grant you wisdom and bless you abundantly.
- Dr Reg Codrington, for your support throughout this period of my studies.
- Mr Kevin O'Donoghue, for your help with designing my questionnaire and for your assistance with statistics.
- My best friend, Janet Croft, for all your help throughout the past two years. Thank you for bearing with me during my happy and grumpy days. You showed me the qualities of a good friend when you helped me with this study even though it is not in your field of study. It is such a blessing to call you my best friend. Thank you for being a friend who was described in Proverbs 17:17 and Proverbs 18:24b. I love you Jan.
- My friends and work colleagues from API Education Foundation. You have supported me so much and words cannot explain how grateful I am to you Roxy Starr, Andrew McElwee, Phillip Ndlovu and Greg Welman.
- All the people who answered my questionnaire. This study would have not been possible without you.
- The North Hills Church family for all the prayers and encouragement. Thank you for being such a great family that I am proud to be part of.
- Antoinette Bisschoff for professionally proof reading this dissertation.

## **ABSTRACT**

Small Medium Enterprises (SMEs) are important contributors to the South African economy and are drivers for reducing unemployment, especially when the formal sector continues to shed jobs. However, for SMEs to be successful, sustainable and to grow, they need to operate efficiently and productively in order for them to achieve a maximum contribution to national as well as provincial economies. Most studies have shown that, on average, 50% of the small businesses that are started eventually fail in two years of being established. The high failure rate of Small Medium Enterprises (SMEs) has been blamed among other things on the lack of managers' skilfulness. A study that was conducted by the World Bank (2012) revealed that 82% of start-ups fail within the first two years, not only because of the external factors such as economic conditions, but rather due to a lack of technical and managerial expertise. This situation is also true in South Africa as the failure rate of SMEs is between 70 to 80% and most of these failures are caused by lack of managerial and entrepreneurial skills that are vital for Small Medium Enterprise development.

The motivation to this research study was to conduct a skills audit for owner-managers of some established Small Medium Enterprises (SMEs) in Pietermaritzburg. The targeted population was owner-managers of selected SMEs in Pietermaritzburg who were registered members of the Pietermaritzburg Chamber of Business (PCB). A non-probability sampling technique incorporating census sampling and snowballing was adopted for the purposes of this research. Due to a low response rate, a switch from census sampling to snowball-sampling technique was made. This study was quantitative in nature and primary information was obtained through the use of questionnaires. The questionnaires were pilot tested before the actual data collection to test for its validity. The computer software called Statistical Package Sciences (SPSS) Version 22 was used for data analysis.

The results indicated that most owner-managers had more communication competency compared to the other skills (accounting, finance and bookkeeping, management, marketing and technological skills). Even though most owner-managers agreed that they were competent in one way or the other, the results of this study also showed that most Pietermaritzburg owner-managers commented that poor

management of finance is one of the most common causes of business failure. Poor general management was highlighted as the second most common cause for businesses to fail in this study, thereby reflecting that most Pietermaritzburg owner-managers agreed that poor management of businesses is causing most business failures. The results of this study could help prevent future business failure rates by adding information to the existing body of knowledge. Recommendations on steps to match the available skills to the required skills can help government, educational institutes and businesses to provide improved and appropriate training and development to owner-managers of SMEs to bridge the skills gaps that are prevalent. These recommendations included that sole proprietors and partners need training in accounting and finance management skills as they showed a considerable lack of competency. Pietermaritzburg owner-managers were also advised to make use of inexpensive ways of marketing like the use of social media platforms, exhibitions and networking. It was also recommended to Pietermaritzburg owner-managers to apply appropriate technologies in their businesses to enhance the growth of their enterprises. A recommendation was made to all SME owner-managers in Pietermaritzburg to make use of government initiatives that are available to support small businesses. Organisations like Small Enterprise Development Agency (Seda) and the Department of Trade (DTI) are also available to provide support to small businesses in every sector.

From literature reviewed and the findings of this research study, the advice was given to owner-managers to constantly develop their management skills through training in order for them to remain abreast of the ever-changing business environment that would require a different way of doing things.

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## **LIST OF ABBREVIATIONS**

DHET	Department of Higher Education and Training
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
PCB	Pietermaritzburg Chamber of Business
PMB	Pietermaritzburg
SEDA	Small Enterprise Development Agency
SMEs	Small Medium Enterprises

# **CHAPTER 1**

## **NATURE AND SCOPE OF STUDY**

### **1.1 INTRODUCTION**

The government of South Africa is facing a huge challenges of providing sustainable jobs and alleviating poverty and can be blamed among other things on the job losses and formal sector and inadequate economic growth (Olawale and Garwe 2010, p. 729). In order to curb the high unemployment rate experience by the country, there has been an increased focus and attention on entrepreneurship and the creation of new SMEs and its potential to significantly contribute to economic growth and job creation (Olawale and Garwe 2010, p. 729). However, Lekhanya (2015, p. 412) gave an indication of how SMEs in South Africa are not meeting the promise to be engines of economic growth, creating jobs, delivering innovation, raising productivity and eliminating poverty. It is estimated that approximately 70-80% of SMEs eventually fail.

The Small and Medium Enterprise (SME) sector in South Africa has increasingly been targeted with ideas of stimulating employment growth and addressing the problem of ever-rising unemployment in the country (Lekhanya 2015, p. 412). Newslane (2012) stated that South African SMEs make a contribution of more than 45% of the country's total Gross Domestic Product (GDP) and employment opportunities of just over 50%. Lindiwe Zulu, the current South Africa Minister of Small Business Development was quoted in the Independent newspaper (2014) addressing the SMME Colloquium saying that SMEs are the backbone of any economy and the main driver of economic growth. Zulu (2014) referred to the research by the Global Entrepreneurship Monitor (GEM, 2014) that showed that SMEs contribute to job creation, creating 50% of employment opportunities in South Africa and they also contribute to 45% of the country's Gross Domestic Product (GDP). BankSeta (2014, p.2) estimated a slightly bigger impact that SMEs make in South Africa, and indicated that SMEs contribute to approximately 50% of the Gross Domestic Product (GDP) and provide an estimated 60% of the workforce with employment. In addition, the South African Minister of Small Business Development recognises that SMEs have a potential to create and expand employment

opportunities, entrepreneurial skills and enhance market opportunities (Independent Newspaper 2014) According to BankSeta (2014, p. 2), SMEs are therefore important contributors to the economy of South Africa and are drivers for the reduction of high unemployment rates in the country, especially as the country continues to experience ever increasing shedding of jobs in the formal sector.

In 2012, the World Bank Group conducted a report called 'Doing Business' and it revealed that South Africa, when compared to other sub-Saharan countries, looks like a more favourable place to start and run a business as it has the best regional performance in the cost of starting a business, dealing with construction permits, getting credit and protecting investors (Newsline, 2012). It is therefore disappointing to note that despite the fact that there are factors that are conducive to starting new entrepreneurial ventures in South Africa, the country still remains one of the least performing countries with regards to entrepreneurial activity compared to the participating economies in the Global Entrepreneurship Monitor (GEM) (Newsline 2012). However, the 2014 GEM report (p. 51) highlighted that the South African regulatory requirements make it very difficult to start a business because of the country's onerous labour laws. Again in the 2015/16 GEM report, it was indicated that the labour regulations in South Africa are a huge inhibitor of doing business in the country.

It is not only the low entrepreneurial activity that can be blamed for the lack of sustainable SMEs. Ramdass and Kruger (2009, p. 6) indicated that there is also a lack of management skills in South Africa due to rapid changes caused through technological innovations, globalisation, market expansion and mass production, and most organisations (big and small) tend to forget to focus on human capital and develop skills to keep up with these changes. This can have a very negative impact on organisations, especially SMEs, due to skills gaps at managerial levels. According to Skills @ Work (2006), a skills audit can help organisations to determine the levels of skills and knowledge of their workforce and therefore allows management to identify any specific needs for training and to make training a priority to ensure sustainability and profitability over the long term.

Pietermaritzburg (PMB) is one of the five local economies of the province of KwaZulu-Natal, a major municipal region and a major service centre for the

KwaZulu-Natal area, thereby making it a more favourable destination for investment and business (KZN Socio-Economic Review and Outlook 2014/2015, p. 51 & Msunduzi 2016). Pietermaritzburg (PMB), according to Coetzee (2006, p. 5) has become a lucrative market and this can result in attraction and encouragement of investment into the local and surrounding economies. Coetzee's Quarterly Economic and Business Report (2006, p. 5) showed that businesses are positive and confident about the future of the business state in Pietermaritzburg and in the Umgungundlovu District and this was derived from the Business Confidence Index (BCI) for the second quarter of 2006. BCI for Pietermaritzburg was 85 (86 for South Africa), which indicated good business confidence (Coetzee 2006, p. 34). However the BCI for Pietermaritzburg fell to 49.95 % in 2013 and this can be as a result of increasing high economic risk and the economic risk was the highest during 2014 in Pietermaritzburg (KZN Provincial – Economic Review and Outlook 2014/2015, p. 55 & KZN Socio – Economic Review and Outlook 2014/2015, p. 65). It is therefore important to determine if the SMEs in PMB can assist to drive the regional and South African economy and if these SMEs have the required managerial skills to create sustainable ventures and employment in the area.

A skills audit can determine if owner-managers of SMEs in PMB have the necessary management skills. Tustin (2003, p. 40) asserted that a skills audit is a vital component to improving business efficiency and competitiveness as it reflects current and future skills needs of an organisation. A skills audit can also help in job creation and economic growth (Tustin 2003, p. 40). This study tried to determine if PMB owner-managers possessed the necessary skills that are required to effectively manage their SMEs as it can have a positive impact on the BCI of PMB.

This chapter indicates the different concepts used in the study and specifically focused on explaining the background of the study, and presented the research problem, research objectives and research questions. The research methodology, significance, limitations, ethical considerations and structure of the dissertation were identified as well.

## **1.2 DEFINITIONS OF CONCEPTS**

Various concepts were used and explained in order to give clarification on their relevance in the study.



### **1.2.1 Small Medium Enterprises (SMEs)**

Beyene (2002, p. 130) clarified that there is no universally accepted definition of SMEs. This was supported by Green (2004, p. 3) who highlighted that there are different ways of defining SMEs and further explained that the Small Business Administration defined SMEs as organisations that employ not more than 500 employees, however, total sales receipts and levels of capitalisation do not constitute to the definition. The United States National Institute defined SMEs as those organisations that employ not more than 200 employees and with US\$50 million or less as annual turnover. In the United Kingdom, SMEs are defined as organisations with less than 30 million pounds' worth of annual turnover and employ a workforce of not more than 500 people (Gunasekaran, Forker & Kodu (2000, p. 317). Some countries attempt to define SMEs using capital assets, others skills of labour and turnover level, and others use legal status and production methods (Abor & Quartey 2010, p. 219). This, therefore, confirmed that SMEs are not uniquely defined since the concept varies from country to country and sector to sector (Nenzhelele 2009, p. 32).

In South Africa, the National Small Business Act 102 of 1996 (SA, 1996) is the most widely used framework to define SMEs in the country. The definition used defines five business categories in South Africa and it uses the number of employees per organisation size category together with the annual turnover categories, the gross assets less fixed property (Abor & Quartey 2010, p. 221). Table 2.1 below highlighted how SMEs are divided into the categories by the National Small Business Act (102 of 1996) (SA, 1996).

**Table 2.1: Small Medium Enterprises categories**

<b>Category of SME</b>	<b>Description</b>
Survivalist	<p>Operates in the informal sector of the economy.</p> <p>Mainly undertaken by unemployed persons.</p> <p>Income generated below the poverty line, providing minimum means to keep the unemployed and their families alive.</p> <p>Little capital invested, not much assets.</p> <p>Not much training.</p> <p>Opportunities for growing the business very small.</p>
Micro enterprises	<p>Between one to five employees, usually the owner and family.</p> <p>Informal - no licence, formal business premises, labour legislation</p> <p>Turnover below the VAT registration level of R300 000 per year.</p> <p>Basic business skills and training</p> <p>Potential to make the transition to a viable formal small business.</p>
Very small enterprise	<p>Part of the formal economy, use technology</p> <p>Less than 10 paid employees</p> <p>Include self-employed artisans (electricians, plumbers) and professionals.</p>
Small enterprise	<p>Less than 100 employees</p> <p>More established than very small enterprises, formal and registered, fixed business premises.</p> <p>Owner managed, but more complex management structure</p>
Medium	<p>Up to 200 employees</p> <p>Still mainly owner managed, but decentralised management structure with division of labour</p> <p>Operates from fixed premises with all formal requirements.</p>

Source: National Small Business Act 102 of 1996 (South Africa, 1996)

For the purpose of this study, the amended definition given by the National Small Business Act 102 of 1996 of South Africa as amended in 2003 (SA, 2003) was used. An SME was described as “a separate and distinct entity including cooperative enterprises and non-governmental organisations managed by one owner or more, including its branches or subsidiaries if any is predominantly carried out in any sector or sub-sector of the economy mentioned in the schedule of size standards, and can be classified as an SME by satisfying the criteria mentioned in the schedule of size standards”. The criteria include turnover, number of employees in an organisation and the total of gross assets of an organisation (Government Gazette 2004, p. 3). SMEs

are also referred to as small business in this research study and this is line with a definition that was given in the National Small Business Act 102 of 1996 (DTI 1996, p.6) which indicated that micro, very small, small and medium enterprises are collectively referred to as small businesses.

### **1.2.2 Entrepreneur and entrepreneurship**

According to Nieman and Nieuwenhuizen (2009, p. 9), there have been problems with defining an entrepreneur as many researchers and academics never seem to reach an agreement on the definition. An entrepreneur was defined by Nandan (2011, p. 5) as “a dynamic individual with creative talents, takes initiative, assembles necessary resources, risk their own money and fortune, creates a new venture, introduces something new and useful in the market and is rewarded by either profit or loss”. Most entrepreneurs choose to pursue their own business idea, are satisfied from their self-acquired wealth, and the process of starting and successfully managing their own business ventures brings them much more joy than working for someone on a fixed salary (Nandan 2011, p. 6).

Entrepreneurship was described by Timmons and Spinelli (2007, p. 79) as a “way of thinking, reasoning, and acting that is opportunity obsessed, holistic in approach and leadership balanced”. While Nieman and Nieuwenhuizen (2009, p. 9) defined entrepreneurship as the emergence and growth of new businesses, it is also a process that causes economic system change through innovations of individuals who respond to market opportunities. Entrepreneurs then create value for themselves and society through the process of entrepreneurship (Nieman & Nieuwenhuizen 2009, p. 9) The field of entrepreneurship studies the practices of entrepreneurs as it examines their activities, characteristics, economic and social effects and the support methods used to facilitate the expression of entrepreneurial activity (Nieman & Nieuwenhuizen 2009, p. 8). Venter, Urban and Rwigema (2011, p. 7) simply stated that entrepreneurs cause entrepreneurship.

For the purposes of this study, entrepreneurs and small business owner-managers will be used interchangeably as entrepreneurs are also small business managers as they manage their enterprises themselves to ensure permanence and growth (Nieuwenhuizen 2004, p. 35).

### **1.2.3 Competency**

Dullayaphut and Untachai (2013, p. 62) defined competencies as “the attributes, abilities, organisational processes, knowledge, and skills that allow a firm to achieve superior performance and sustained competitive advantage over competitors”. A definition that was given by Hunter (2010, p. 241) of competency was used in this study. He explained that competency is the application of abilities, knowledge, skills, attitudes and values in a way that people are able to perform their jobs at or above the performance standard level. Mitchelmore and Rowley (2013, p. 129) then gave two broad themes in managerial competencies and these include:

1. Functional competencies, for example, marketing and finance; and
2. Organisational competencies, such as the skills that are related to organising, motivating, personal skills and leadership.

These themes were also used to define managerial competencies in this research study.

### **1.2.4 Skills**

Hunter (2012, p. 257) defined a skill as one’s ability to perform a specific task or tasks. Therefore, skills are “what people can do; they are the action part of performance as opposed to knowledge which might or might not be applied” (Hunter, 2012, p. 257). On the other hand, Hellriegel, Jackson, Slocum, Staude, Amos, Klopper, Louw and Oosthuizen (2008, p. 16) defined a skill as one’s ability to transform knowledge acquired into action that results in the performance that is desired.

Skills can be attained as a result of a mixture of innate talent, education, training and experience and they extend beyond technical attributes, such as skills in machining or baking, to include creativity, assertiveness, the ability to listen, numeracy and the ability to plan or exercise judgement (Ferguson & Ferguson, 2000, p. 72). Generic skills were defined by Tustin (2003, p. 36) as “those skills that apply across a variety of jobs/occupation groups”. It also advised that the development of these types of skills is crucial for SMEs to function effectively and for their future development, which will be focused on in this study.

### 1.2.5 Skills audit

Van der Westhuizen and Wessels (2011, p. 332) gave a definition of a skills audit as an investigation that is undertaken in order to determine the current workforces' actual skills and the reason being to define the skills gaps and the real skills requirements of the organisation. Meyer (2002, p. 268) also indicated that a skills audit can be used to assess the skills that can be required in the foreseeable future. The Central Queensland TAFE (2012, paragraph 6) stated that skills gaps can be used as basis for Training Needs Analysis (TNA) that organisations can use to reach the skills base for their employees. Therefore the information that is derived from conducting a skills audit is of critical importance as it helps organisations to achieve their organisational strategy through skills development (The Central Queensland TAFE, 2012, paragraph 6).

Erasmus, Loedolff, Mda and Nel (2013, p. 380) indicated that a skills audit helps to establish:

- The skills that actually exist within the organisation
- How organisations compare with the organisational skills requirements as determined through the workforce planning and job analyses process
- What skills development priorities are (pre-occupational group, levels, demographic profile)?
- How the skills development priorities may be addressed through a systematic plan and when they will be addressed
- What the key success indicators / measures of the Workplace Skills Plan (WSP) will be
- How to implement, track and monitor progress, and
- What to report to management and the relevant Sector Education and Training Authorities (SETA)

Watson (2004, p.3) discussed that the first step to the process of skills audit is with the company determining its skills requirements through the identification of its current and future skills requirements for each job. This is followed by the auditing of the actual skills where individuals can do self-audits or an organisation can make use of a panel approach or external consultants to audit the qualifications, experiences and training (knowledge) of employees. The result of the actual skills audit is called a skills gap analysis. The next stage will then be to determine development needs and

plan for training/restructuring of which recommendations and actions to be implemented can then be discussed (Watson 2004, p.3).

### **1.2.6 Skills gap**

Werner and DeSimone, (2009, p. 280-281) explained that the difference between the skills that are required for available jobs and the skills that are possessed by a job applicant is called a skills gap. Werner and DeSimone (2009, p. 281) advised that employers in today's dynamic environment face a major problem in terms of skills gaps. They identified three different factors that result in skills gaps and these are:

- The skills level achieved by many high school and college graduates;
- The growing number of racial minorities and non-English speaking immigrants in the labour market; and
- The increased sophistication of jobs due to high reliance on information technology.

However, Martins and Van Wyk (2004, p. 25-26) elaborated that skills gaps occur when there is a sufficient supply of skills, but are seen to be of a low standard or not workplace relevant by potential employers. This inadequacy of the skills of the employees therefore provides an indication of training needs (Martins & Van Wyk 2004, p. 25-26).

For the purposes of this study, a skills gap refers to those skills that respondents agreed that they had no current to inadequate competence. Thus, the skills that the Pietermaritzburg owner-managers admitted to not possessing when they are required to possess those skills in order to run a successful business. When compared to other skills (management, marketing, technological and communication), the findings showed the skills gap was wider with regards to accounting, finance and bookkeeping skills.

## **1.3 SCOPE OF THE STUDY**

As mentioned, this study focused on the city of Pietermaritzburg (PMB) which is the capital city of KwaZulu-Natal (KZN). KwaZulu-Natal is one of the highest contributors to the South African economy and contributes a total of approximately 16.5% of the country's Gross Domestic Product (GDP) (Msunduzi Municipality

2016). Trade and transport infrastructure are some of the key strengths of this province's economy. The KwaZulu-Natal Provincial Treasury indicated in the Provincial budget (2014) that in 2012 the real Gross Domestic Product for KwaZulu-Natal was estimated at R322.2 billion translating to 16.6% of the national output, making the province one of the key regions in the South African economy. According to The Real Economy Bulletin Provincial review (2016, p. 1), the latest available data showed that in 2014, KwaZulu-Natal contributed R610.1 billion making up 16.1% of the country's total GDP thereby showing the province's significant contribution to the economy of the country.

Statistics SA (2014) revealed that the South African unemployment rate for the fourth quarter of 2014 showed that KwaZulu-Natal experienced the lowest official unemployment rate of 20.8% followed by Limpopo with 15.9%. The SABC News (2015) further raised disappointment by saying that the low unemployment rates in Limpopo and KwaZulu-Natal mask high discouragement.

PMB is situated 45 minutes away from Durban, which is the main port in Africa and is astride the N3 highway, which is South Africa's busiest development corridor connecting Durban to Gauteng. The location of Pietermaritzburg is also central to most inland towns and settlements in KwaZulu-Natal – making it a favourable city for business and an attractive investor destination (Msunduzi Municipality, 2016). For this reason, PMB's SME owner-managers were focused on to determine whether there was a skills shortage or surplus. This is important because, if there were skills gaps, government, businesses and educational institutions would be in a better position to provide appropriate training and development to those owner-managers of SMEs to bridge these gaps. BankSeta (2014, p. 3) also advised that by improving skills, enterprises can experience some improvements in productivity levels and effectiveness and thereby resulting in SMEs that are more stable and this can also lead to increased profits that could have a positive impact on the economy.

#### **1.4 BACKGROUND OF THE STUDY**

Despite the importance of SMEs to the development of the economy of South Africa, their failure rate is very high (Fatoki 2014a, p.749) and there is a lack of entrepreneurial activity. Petrus (2009, p. 8) who raised concerns by mentioning that

although the SME sector is more labour intensive and conducive for South African employment creation, their high failure rate raises uncertainties about the ability of the sector to create sustainable employment. Petrus' (2009, p.8) concerns were raised when he highlighted that the total number of registering SMEs is approximately the same number as or surpassed by the number of those that are failing or being liquidated. Clark (2012, paragraph 8) referred to a study that was conducted by World Bank in 2012 which revealed that 82% of start-ups fail within the first two years, not only because of the external factors such as economic conditions, but rather due to a lack of technical and managerial expertise.

The South African Minister of Small Business Development in the Independent newspaper (2014) acknowledged that statistics showed that the chance for small businesses to survive for four years is estimated to be 37% and an estimated 70% to 80% of small businesses fail in the first year of being established and only half of those remain in business for the following five years. According to Faith Ngwenya, the acting chief executive officer of The South African Institute of Professional Accountants (SAIPA) in The Witness (2016, p15), confirmed the failure rate as between 80-90 % in the first three years of starting new ventures.

This high level of small business failure was blamed on a shortage of business and management skills, amongst other problems, which have been highlighted as a worldwide malaise of small businesses in both developed and developing countries (Tlhomola 2010, p. 66-67). Van Aardt, Van Aardt, Bezuidenhout and Mumba (2008, p. 249) blamed management for 80% of the problems that are experienced by businesses due to a lack of critical business skills that are required to run their businesses successfully. Tlhomola (2010, p. 21) further highlighted that managerial skills and entrepreneurial skills that are critical for the development of SMEs are lacking in South Africa. The Manpower Group Talent Shortage Survey (2012) has also named the lack of management skills the 5th among the top ten of the highest level of skills shortages for South Africa. Many SMEs according to Welford (2005, p. 30), have shown evidence of inefficiency, unproductiveness and wasteful of human resources. Analoui and Karami (2003, p. 36) agreed that most managers lack appropriate experience in the main business areas like marketing, finance and production and due to insufficient managerial skills in the main business functions, most businesses can gradually decline.



The Department of Higher Education and Training (DHET) in the Government Gazette (2014, p. 15) further pointed out how difficult it is to find knowledgeable and skilled managers in South Africa, which is seen as a scarce skill in the country in the public, private and SME sectors. The DHET in the updated Gazette (2015, p. 6) included managers of the list of occupations in high demand in the year 2015 and specifying the need for small business managers specifically. Williams (2009, p. 5) advised that the current managerial skills shortage in South Africa will negatively impact organisations as they need managers with knowledge and skills in their operations or processes and who can be also in a position to lead effectively in the time of global crisis. This was cemented by Nieman and Nieuwenhuizen (2009, p. 427) who mentioned that, “the qualities and skills of entrepreneurship and innovation needs to be developed among South Africans to drive growth, only then will the country’s long-term prospects improve”.

Maharaj and Ortlepp (2003, p. 23) emphasized the importance of adequate management skills when he lamented that “even with a superior product, you will never have a chance against the experienced major league teams unless you have a management depth from the start”. There also seems to be a problem that SMEs in developing countries are often not in a good position to make informed decisions with regards to training and skill acquisition for managers and employees according to Tlhomola (2010, p. 66-67). This can be due to financial constraints. Nieman and Nieuwenhuizen (2009, p. 35) indicated that the high number of SME failure rates can be linked directly to problems with cash flow due to poor management of business growth. According to the work of Longenecker, Moore and Petty (2006, p. 402), there is inadequate specialised professional staff in small firms and they lack the support of experienced specialists in areas like marketing research, financial analysis, advertising and human resource management. They went on to indicate that management of small businesses is then expected to make decisions in these areas that they lack expertise that is available in large businesses (Longenecker *et al*, 2006, p. 402). Potgieter (2007, p. 44) highlighted that organisations should ensure that they have a large pool of managerial-level employees to drive the organisation to a leading competitive edge in order for them to be successful. Lack of management skills continues to be major hurdle for SMEs survival and growth in South Africa and this was supported by Fatoki and Chiliya (2012, p13) who mentioned about how the failure of SMEs in

South Africa can be attributed to lack of managerial skills such as financial management, marketing and human managerial skills.

In South Africa, according to the Global Entrepreneurship Monitor (GEM) (2014, p. 43) report, since 2001, poor quality education and training has been identified in South Africa as one of the main constraints of doing business in the country. Hunter (2004, p. 37) mentioned that it has been strongly evidenced that the strength of the economy of a country is dependent to a large extent on the education level of its population and on the types of subjects that are studied by students. A lot of people in South Africa are unemployed but sadly do not have the required skills in the formal sector or to start and operate their own enterprises and this was used by Hunter (2004, p. 35) as an indication how the education system in South Africa has failed.

Nenzhelele (2009, p. 4) asserted that the South African strategic economic policy has three essential factors and these include that there is need for the expansion of small to medium enterprises, the improvement in productivity levels and employment creation. SMEs are very crucial in South Africa as they have the potential to contribute significantly towards reducing unemployment in the country. Therefore, there is a need for SMEs to operate efficiently and productively to achieve a maximum contribution to provincial, national, and global economies (Nenzhelele 2009, p. 4).

## **1.5 PROBLEM STATEMENT**

There is a high failure rate of SMEs in South Africa (Fatoki 2014, p. 749; Petrus 2009, p. 8; The Witness 2016, p. 15). The reason for this does not seem to be due to external factors such as economic conditions, but rather due to a lack of technical and managerial expertise (Tlhomola 2010, p. 21; Nieman and Nieuwenhuizen, 2009, p. 35; Longenecker *et al.*, 2006, p. 402). If SMEs lack management skills they will not be able to create job opportunities due to their unsustainability and can even add to the problem of unemployment. Research is therefore needed to identify managerial skills gaps in SMEs as a way to help prevent small business failure rates in future.

## **1.6 RESEARCH OBJECTIVES AND RESEARCH QUESTIONS**

This research was aimed at achieving the following objectives:

### **1.6.1 Primary objective**

The primary objective of this study was to conduct a skills audit on the owner-managers of selected SMEs in Pietermaritzburg. It was envisioned that the results could add information to the existing body of knowledge to assist government, educational institutes and SMEs to overcome managerial skills gaps in an effort to prevent the high levels of SME failures.

### **1.6.2 Secondary objectives**

To meet the primary objective of this study, the following secondary objectives were set, namely:

1. To establish which skills owner-managers need to successfully start and manage a small business;
2. To conduct a skills audit;
3. To determine the skills of SME owner-managers in PMB;
4. To critically assess the skills shortcomings of SME owner-managers in PMB in comparison to the required skills of successful entrepreneurs; and
5. To recommend steps to match the available skills to the required skills with the help of government, educational institutes and businesses.

### **1.6.3 Research questions**

The research questions were:

1. What skills do owner-managers need to successfully start and manage a small business?
2. How can a skills audit help to identify skills gaps of SME owner-managers?
3. What skills do SME owner-managers in PMB have?
4. What are the skills shortcomings of SME owner-managers in PMB in comparison to the required skills of successful entrepreneurs?

5. What recommendations can be made to match the available skills to the required skills with the help of government, educational institutes and businesses?

## **1.7 RESEARCH METHODOLOGY**

The study comprised two phases: a literature review and an empirical study.

### **1.7.1 Literature review**

The literature review examined the role played by SMEs in the South African economy; the problems experienced by SMEs and the key small business management skills that are needed for the creation and sustainability of SMEs. Literature on the importance of skills audits in an organisation and the challenges that are faced by SMEs while conducting a skills audit was also provided. Ways of developing the skills of SME owners-managers so that they will be in a position to manage sustainable SMEs thereby reducing the failure rates of small business. Scholarly journal articles, textbooks, magazines, newspaper articles, internet sources and unpublished dissertations/theses were used in this research study for the purposes of collecting the relevant literature.

### **1.7.2 Empirical study**

The empirical study followed a survey design collecting quantitative data from the SME owner-managers. The research instrument was designed to assess the general demographic information of Pietermaritzburg owner-managers, for example, their gender, race, age group and their highest level of qualification completed. Section B then assessed the actual details of the organisation so as evaluate if the organisations qualified to be classified as SMEs. An assessment on the skills and competencies of PMB owner-managers played out in Section C of the questionnaire where individuals had to conduct a self-assessment on their accounting, finance and bookkeeping skills, management skills, marketing skills, technological skills and communication skills. A 4-Likert scale was used where PMB owner-managers had to respond to having no current knowledge or skill (no current competency), some awareness but not sufficiently competent to use it (incompetency), familiar with and able to use the knowledge or skill (some competency) and being an expert with a high degree of

skill/ comprehensive knowledge and is able to show others how to use it (fully competent). The last section of the questionnaire had open-ended questions where respondents had to provide answers they thought caused most businesses to fail and to indicate some of the skills that in their opinion would be required by owner-managers in the future.

The questionnaire for the study was piloted before the actual data collection process. For the purposes of the pilot study for this research study, seven questionnaires were distributed to different small businesses owners. Hair, Money, Samounel and Page (2007, p. 279) justified the use of seven questionnaires in this research study for pre-testing when they highlighted that the sample for pre-testing include four or five individuals but not more than thirty. Based on feedback from pre-testing, the questionnaire was revised and the final questionnaire was administered to 260 SME owner-managers in PMB and 108 questionnaires were filled in and returned to the researcher. The response rate therefore was 41.5 % ( $108/260 \times 100$ ).

## **1.8 RATIONALE FOR THE STUDY**

The Entrepreneur Magazine (2013) highlighted the importance of SMEs in South Africa by referring to them as “the backbone of the economy”. Van Scheers (2011, p. 5048) cemented this by saying that in South Africa, SMEs help in creating new job opportunities, and therefore SMEs are essential in the promotion and creation of economic growth and development as well as in the creation of wealth. Lekhanya (2015, p. 412) was in agreement with the other authors on the importance of SMEs by referring to them as engines for economic growth as they create employment, increase competition, stimulate innovation and boost productivity. However, despite “this highly celebrated significant contributions” of SMEs to the South African economy, they experience low survival rates and high failure rates thereby casting doubt in their ability to create employment that is sustainable and that can lead to reduced poverty (Fatoki 2012, p. 121). The South African Minister of Trade and Industry, Rob Davies (2013) asserted that five out of every seven new SMEs fail within the first year of being established (Entrepreneur Magazine 2013).

The reason for conducting this study therefore was to carry out a skills audit on selected PMB owner-managers. Tustin (2003, p. 40) said that skills development is of vital importance to SMEs as it allows them to function effectively, thereby indicating

the importance of a skills audit on Pietermaritzburg SMEs. Tustin (2003, p. 40) went on to indicate the importance of skills audits by highlighting that “a human resources profile that reflects current and future skills needs, is a vital component of any strategy aimed at improved business efficiency and competitiveness, which could ultimately support job creation and economic growth”. Therefore, a skills audit is intended to help an organisation to identify its existing skills and future skills that the organisation will require (Lieberman 2013). This will therefore assist the organisation in identifying if there are any skill deficiencies, identify any specific training needs, prioritise training and making sure that the right people are placed at the jobs that they are skilled and competent at (Lieberman 2013).

## **1.9 LIMITATIONS**

According to Cooper and Schindler (2008, p.585), all research studies experience some limitations and so was this research study. These limitations included limited time and money; the population targeted might have given untruthful and misleading answers or withheld useful information just to protect their image or the image of their organisation or for some personal reasons. In spite of the researcher’s judgement, the used sampling technique in this study might have given results that are misleading if the sample happens not to be population representative. The researcher overcame these limitations by asking respondents to answer questions as honestly as they could and by giving them assurance that the data collected is not for any use other than this research and no one will have access to the data collected. The other limitation for the study was getting a list of registered members of Pietermaritzburg Chamber of Business since the list was not readily available to the non-members of PCB. The researcher paid a fee to PCB in order to get the list of the registered members. An issue of low response rate was another limitation; initially, the researcher had to obtain 250 answered questionnaires but due to the very low response rate (41.5%); the researcher was only able to obtain 108 responses. Getting hold of the research participants was a challenge as the researcher had to walk door-to-door, make phone calls and send out emails but only a few responded. The low response rate was also because some owner-managers were no longer active in business but had a lifetime membership with PCB so they were unable to participate in the study. Some of the members on the list of members of PCB were no longer members and some organisations had changed ownership and the current owners were

not actively involved with PCB. The other limitation was that some organisations are members of the PCB but are just too big to be classified as SMEs and some organisations had moved from the address provided by PCB membership list, which made it difficult for the researcher to contact them.

The other limitation of the research was the use of the questionnaire as was described by Erasmus, Loedolff, Mda and Nel (2013, p. 173) that even though it is appropriate to use a questionnaire for obtaining data about knowledge requirements, it has a limitation of not being suitable for skills assessment. The disadvantages are that the response rate could be low and poorly formulated questions will provide unsatisfactory answers.

## **1.10 STRUCTURE OF DISSERTATION**

This section will outline the structure of the next chapters in this research study.

### **CHAPTER 1: NATURE AND SCOPE OF STUDY**

This chapter introduced the reader to the skills framework, and touched on the importance of SMEs and the need to improve the skills of SME owner-managers. The problem identified was that SMEs contribute hugely to the South African economy considering the failure of the formal and public sector to “absorb” the growing unemployment rate in the country (Olawale and Garwe 2010, p. 730). Regardless of the importance of SMEs, literature revealed that small businesses in South Africa fail within two years of being established. Among other factors, lack of management skills was identified as one of the important causes of business failures in the country. Therefore, the rationale for the study, the problem statement, the research objectives and research questions for the study were also discussed in this chapter.

### **CHAPTER 2: LITERATURE REVIEW**

This chapter aimed to introduce the reader to relevant literature on skills audits and the need for them to be conducted, the role of Small Medium Enterprises (SMEs) in the South African economy and the link between an entrepreneur and entrepreneurship. Literature also revealed that researchers have tried but failed to get a list of the exact skills that are needed by SME owner-managers in order to run a

successful business. Key small business management functions and the ten deadly mistakes that entrepreneurs make were also discussed.

### **CHAPTER 3: RESEARCH METHODOLOGY**

This chapter highlighted the research methodology of this study. The research design, data collection and data analysis methods, targeted population, sampling technique and sample size were discussed in this chapter. The objectives and questions of this research study were revisited. The research methodology chapter also explained how the data was collected and analysed. The reliability and validity of the findings, ethical considerations during the study and delimitations of the study were also provided.

### **CHAPTER 4: ANALYSIS AND PRESENTATION OF FINDINGS**

After a detailed account of literature in chapter two and research methodology, chapter 4 was purposed to outline the findings of the research in order to fulfil the research objectives of this study. This chapter gave an introduction and a restatement of the research objectives and research questions. The analysis of the findings helped to achieve the research objectives that were set out for this study. The analysis of the collected data also suggested that most respondents agreed that they were fully competent with regards to accounting, finance and bookkeeping, management, marketing, technological and communication skills.

### **CHAPTER 5: DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS**

This chapter discussed the findings of the study and interpreted the findings using the existing theory that was covered in chapter two. The researcher highlighted how the research objectives were achieved and how the research questions were answered. Drawn conclusions and recommendations made by the researcher were discussed in this chapter. The limitations to the study and the possibility for future research were also provided in the final chapter.

## **1.10 CONCLUSION**

Small Medium Enterprises (SMEs) in South Africa play a huge role in the South African economy, however most of these SMEs fail after a few years of establishment. A lack of management skills was identified mostly as the main cause



of most business failures. The aim of this study therefore was to conduct a skills audit to identify the skills that PMB owner-managers possessed in comparison to the skills that are required by successful owner-managers.

This introductory chapter provided the background and scope of this empirical study as well as the main aim, research objectives, research questions of the research study and lastly, Chapter 1 is also the structure of the dissertation. The purpose of this chapter was to introduce, define the research problem; the background and motivation of this study. The structure of the next chapters were also provided. This chapter specifically introduced the reader to skills audits and the need for skills development in South Africa focusing on Pietermaritzburg specifically.

The following chapter provides the literature review of this study.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

A shortage of business and management skills has been highlighted as a worldwide malaise of small businesses in both developed and developing countries (Tlhomola 2010, p. 66-67). Hunter (2010, p. 234) highlighted that South Africa is experiencing a higher shortage of qualified and competent managers. A study that was conducted by Lekhanya (2015, p. 417) revealed that one of the major problems that SMEs in South Africa are facing is the lack of management skills in order for them to survive and grow. Poor management skills and an inadequate enabling environment of entrepreneurs are some of the major causes of business failure in South Africa (Tlhomola 2010, p. 16). Agbenyegah (2013, p. 223) highlighted that management skills are very important for starting and managing any business.

This chapter presented the contribution of SMEs in the economy of South Africa and these include that they help in creating employment, and is a major contributor to the country's Gross Domestic Product (GDP), and helps in increasing disposable income. Problems that SMEs face were also discussed, as these can be barriers to the growth of small businesses and thereby resulting in their failure. Key small business management functions and skills and how SME owner-managers can develop their skills are also provided below. Towards the end of this chapter, a discussion on skills audits, their importance, the challenges of conducting a skills audit and how those challenges can be overcome are discussed.

#### **2.2. THE IMPORTANCE OF SMALL MEDIUM ENTERPRISES IN THE SOUTH AFRICAN ECONOMY**

According to Hunter (2004, p. 24), for the past two decades, the importance of the SME sector to the South African economy have been hugely emphasised by government, business development organisations, financial institutions and large business. Hunter (2004, p. 24) continued to describe that, "although there was a general understanding and consensus of the commercial importance of the sector, SME development was also punted as a solution to many of the social problems that

existed in the country, such as unemployment, crime and gender inequality”. This section investigates the importance of SMEs in the South African economy.

### **2.2.1 Employment creation**

During the African National Congress’s (ANC) 2009 manifesto, unemployment was captured as one of South Africa’s massive challenges as it was stated unemployment is unacceptably high among South Africans (Sunday Times review section 2012, p. 1). The article highlighted that it was estimated that 7 504 000 people are unemployed and that is a higher rate of unemployment than that of any comparable middle-income country. According to Statistics South Africa (2014), the country’s unemployment rate was estimated to be 25.2% and the 2016 first quarter labour survey conducted by Statistics South Africa (2016, p. iv) revealed that the unemployment keeps on increasing as the unemployment rate was now at 26.7%. Of huge concern is that 72% of the unemployed are young, aged between 15 and 34 and more than half of these (62%) have less than secondary school education and 33% have completed secondary education but have no tertiary education (Sunday Times review section 2012, p. 1). According to Statistics South Africa’s (SSA) quarterly labour force survey of 2013 in the first quarter, the unemployment of the 15 to 34-olds was 70.7% of the unemployed people in the country.

Therefore, according to Tustin (2003, p. 38), there has been increased focus on the South African Small and Medium Enterprises (SMEs) sector as it has the potential to stimulate employment growth and addressing the ever-rising unemployment levels in the country. According to the South African Reserve Bank (SARB) (2015, p. 5) the contribution made by SMEs vary but it was estimated that SMEs in South Africa contribute between 52 to 57% towards the Gross Domestic Product (GDP), employ 60% of the country’s labour force and making a contribution of approximately 43% towards the total wage bill. An increase in economic activity affects SMEs positively as the demand for their products is expected to increase, thus when economic activity increases, output also increases and thereby increases employment. As more jobs are created, people’s income increases and so does the demand for consumable products (Kanono 2000, p. 47). Ntsika (2001, p. 38) indicated that some business commentators have commended the small business sector for its ability to improve the South African economic landscape by jobs creation, reducing crimes and

increasing the competitive environment of the country's economy. Hunter (2004, p. 24) stated that due to the South African history of job losses in the formal sector and the inadequate economic growth, the required high level of job creation is unlikely to be achieved in the formal sector, so therefore, the focus has to be shifted to creating jobs in the informal sector, most especially by assisting individuals to start small enterprises. However, Lekhanya (2015, p. 413) raised doubt on the SMEs ability to create jobs by mentioning how SMEs in South Africa are not meeting what is expected of them as they are shedding jobs rather than creating employment.

### **2.2.2 Major contributor to Gross Domestic Product (GDP)**

Gross Domestic Product (GDP), according to Mankiw (2011, p. 494) is “the market value of all final goods and services produced within a country in a given period of time”. Abor and Quartey (2010, p. 224) indicated that SMEs, through the manufacturing of value goods or providing goods and services to consumers as well as other enterprises, contribute to the country's national product. It was estimated that in South Africa, SMEs constitute 91% of the formal entities; contribute approximately between 52 to 57% towards the Gross Domestic Product (GDP) of the country and an estimated 61% towards employment (Abor & Quartey 2010, p. 218). According to the GEM 2015/2016 report by Herrington and Kew, SMEs in South Africa contributed 45% of the country's total GDP. Amadeo (2012, n.p) went on to mention that declining GDP usually results in layoffs and unemployment and this is mainly due to the decrease in business revenues thereby highlighting the contribution that SMEs make towards the economic development of the country.

### **2.2.3 Help in increasing disposable income**

The level of joblessness mentioned earlier is the major reason why between 40% and 50% of South Africans live in poverty and South Africa has become the most unequal society in the world, with 50% of the population living on 8% of the national income (Sunday Times review section 2012, p. 1). This indicates that most South Africans are so poor that they have next to nothing to spend on goods and services (Sunday Times review section 2012, p. 1). The GEM (2015/2016) report revealed that between 35 and 55 % translating to 18 and 27 million people who live in poverty in South Africa. SMEs help in employment creation and thereby increasing South Africans' current

disposable income (Naidoo 2003, p. 3). According to Fatoki (2014, p. 270, 272), South Africa is experiencing a relatively high poverty level and the development of SMEs is one of the ways of reducing it. Mahadea and Youngleson (2013, p. 43) mentioned how SMEs help in alleviating poverty through income generation because with employment creation comes income generation. Clark (2012, n.p) revealed that it was estimated that SMEs in South Africa contribute 43% of the total wage bill.

During a President's Conference on Small Business in Durban, Nelson Mandela (1995 cited in Ladzani, 2001, p. 1) made a statement about how important political liberation is. Through economic liberation, everyone can create their own wealth; earn a living; feed, clothe and provide shelter for their families; and can afford better education for their children. Mandela emphasized the importance of SMEs by highlighting how markets are more important than parliaments (Ladzani, 2001, p. 1).

Zindiye and Mwangolela (2007, p. 89) added to the importance of SMEs in South Africa when they mentioned that, “at the end of the day SMEs should be seen as an initiative to impact employment creation, income generation, improvement of local economies and general social transformation of livelihoods in different geo-political contexts in South Africa”. Abor and Quartey (2010, p. 218) said that SMEs are “efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines”.

Maphiri (2015, p.i) concluded by saying that “it is unfortunate that despite the highly celebrated contributions to the socio-economic development, SMEs in South Africa have the lowest survival rates in the world, resulting in high business failure rates and job losses”. There are however problems faced by SMEs that can prevent SMEs from being sustainable, profitable and can cause SME failure.

### **2.3 PROBLEMS FACED BY SMALL MEDIUM ENTERPRISES**

Nieman and Nieuwenhuizen (2009, p. 35) mentioned that it is very critical to discuss the challenges that are faced by SMEs considering their high failure rates and contribution towards the national economy. Small enterprises can successfully create employment, innovation, returns and growth but due to hurdles like restricted market access, finances, technology and various operational skills make them not to reach

their full potential (Ntlhola 2010, p. 35). BankSeta (2014, p. 2) highlighted that SMEs in South Africa face a number of problems and these include obtaining the funds needed, and the high shortage of skills in the country that makes it difficult for SME owners and managers to attract and retain the skilled talent. The South African former Education Minister Naledi Pandor was quoted by McGregor (IPS) (2007) who lamented publicly that “the current skills shortage could affect future productivity and throw South Africa off the path of greater prosperity”.

BankSeta (2014 p. 2) further explained that South African SMEs also experience a lack of capacity due the country’s chronic skills shortage and because of the difficulties in obtaining the desperately needed finances; the temptation of considering up-skilling and training of staff should be increased. A number of organisations like Ntsika, the DTI, ABSA have also reported that SMEs in South Africa experience challenges of “lack of management skills, lack of finance and obtaining credit, access to markets and developing relationships with customers, appropriate technology and low production capacity, recognition by large organisations and lack of support for the role that they play in economic development” (BankSeta 2014, p. 2-3). Welford (2005, p. 30) raised the concern that the management systems of SMEs have shown some evidence of being inefficient, unproductive and the wastefulness of human resources.

People orientated issues were also identified by Nieman and Nieuwenhuizen (2009, p. 37) as another constraint facing SMEs in South Africa. Human resources is one of the most essential assets of any organisation and issues involved in human resource management including addressing the skills, attitudes and expectations of employees. This was supported by Thulo (2015) who indicated that most business owners have reported that one of the problems that they are facing is the unavailability of skilled employees and they suggested a need for the improvement of skills among the national workforce.

South Africa’s SMEs also experience exceptionally high failure rates – Rob Davies, the Minister of Trade and Industry in 2014 reported that South Africa has one of the highest SME failure rates in the world and it is estimated that 70% of the country’s SMEs fail in their first year (SBP 2014, p. 2). Wolmarans and Meintjes (2015, p. 88) said that the South African’s SME failure rate is amongst the highest in the world

with some researchers estimating it to be as high as 90 percent. Van Aardt *et al.* (2008, p. 249) supported this when they blamed management for 80% of the problems that are experienced by businesses due to a lack of critical business skills that are required to run their businesses successfully. Meggison *et al.* (2000, p.16) mentioned that some of the reasons for small business failure being caused by most people start a small business not because they possess the necessary managerial skills but just because they are good at a specific activity or trade. These high levels of small business failure in South Africa were blamed on, among other things, a shortage of business and management skills, which have been highlighted as a worldwide malaise of small businesses in both developed and developing countries (Tlhomola 2010, p. 66-67).

SMEs in South Africa are also facing a serious challenge of regulatory constraints (Abor & Quartey 2010, p. 224). Hendricks (2016, p. 39) was in agreement with Abor and Quartey (2010, p. 224) by saying that the South African high rank restrictive labour regulations make it difficult for businesses to remain afloat. Lack of access of finance is also one of the problems that SME owner managers face because “banks are not set to cope with small loans” and the interest rates charged on loans by banks are so high that small businesses cannot afford it (National Credit Regulator (NCR) 2011, p. 10). Lekhanya (2015, p. 412-413) gave a number of challenges that SMEs in South Africa regardless of sector experience and these included “lack of business planning, difficulty in accessing finance, difficulty in accessing markets or meeting industry requirements or standards, lack of experience among owners and managers, lack of sector specific expertise, inconsistencies in cash flow, lack of entrepreneurial skills and mind set as well as business acumen, lack of capacity to undertake market research, resulting in a lack of understanding of market needs and characteristics, skills shortages, particularly with respect to technical skills and business management skills, fragmented and uncoordinated support from entities tasked with providing assistance, lack of innovation and providing assistance, lack of innovation and creativity, difficulty accessing land or securing operating premises, red tape and cumbersome regulatory processes and procedures”.

For SMEs to be successful, it is important to understand key small business management functions and skills needed to ensure the creation and management of

SMEs are sustainable and can grow SMEs to create jobs and to add to economic growth. These skills and functions can prevent SME failure as well.

## **2.4 KEY SMALL BUSINESS MANAGEMENT FUNCTIONS AND SKILLS**

Nandan (2011, p. 7) indicated that the SME owner-managers requires certain distinctive skills, expertise and aptitudes to help them in managing their business ventures successfully. Owner-managers need to undergo a process of doing an audit and introspection to determine their strengths and weaknesses and actively address any weaknesses through training, making use of consultants or employ people with the required skills and expertise.

Mbabane (2008, p. 4) mentioned that there are three sets of skills needed by owner-managers for them to be effective in their managerial roles and these are: technical skills, human skills and conceptual skills and they are highlighted below:

- **Technical skills:** Morris and Kuratko (2002, p. 5) said that a technical skill is one's ability to use techniques, procedures and tools of a specific field. This refers to the ability to apply specialised knowledge or expertise that can be learnt through formal education in schools or through formal training programs at work (Mbabane 2008, p. 4). Govender (1990, p. 49) indicated how many entrepreneurs start their business because they have technical skills that are needed to make the product, but unfortunately lack the technical expertise to adapt or improve their products and services to make it suitable for a wider market.
- **Human skills:** Mosley, Megginson and Petri (1997, p. 13) described human skills as the owner-managers' ability to understand and interact with other people and these includes motivating, leading, coaching, empowering, and facilitating employees. Owner-managers should have good human skills to communicate and delegate effectively. Niewenhuizen (2004, p. 53) highlighted that successful entrepreneurs motivate their employees; they know how to build contacts that benefit the enterprise and they stay on good terms with suppliers, clients and others involved in the enterprise. Human skills can be taught but also depends on the personality of the owner-manager, which can be challenging sometimes to ensure it is effective.



- **Conceptual skills:** Hellriegel *et al.* (2008, p. 17) suggested that conceptual skills involve the managers' "ability to see the bigger picture, to take a systems perspective and be aware that the organisation influences and is influenced by the external environment". Morris and Kuratko (2002, p. 5) explained a conceptual skill refers to the ability to plan, coordinate, and integrate all the organisation's interests and activities. Conceptual skills involve the owner-managers' ability to acquire, analyse and interpret information in a logical manner (Mosley *et al.*, 1997, p. 13). All managers including owner-managers need to understand their business environment as well as the effects of those changes on their businesses.

The literature provided above, showed that different authors have different views on what kinds of skills are required by SME owner-managers. This was supported by Maes, Weldy and Icenogle (1997, p. 69) when they opined that regardless of the importance of management skills, most studies have tried, but failed to identify the complete range of skills that are required for effective business performance. Communication, problem solving, management, decision making, negotiating, in addition to financial and technical skills, were identified as some of the skills that are required by SMEs' owner-managers.

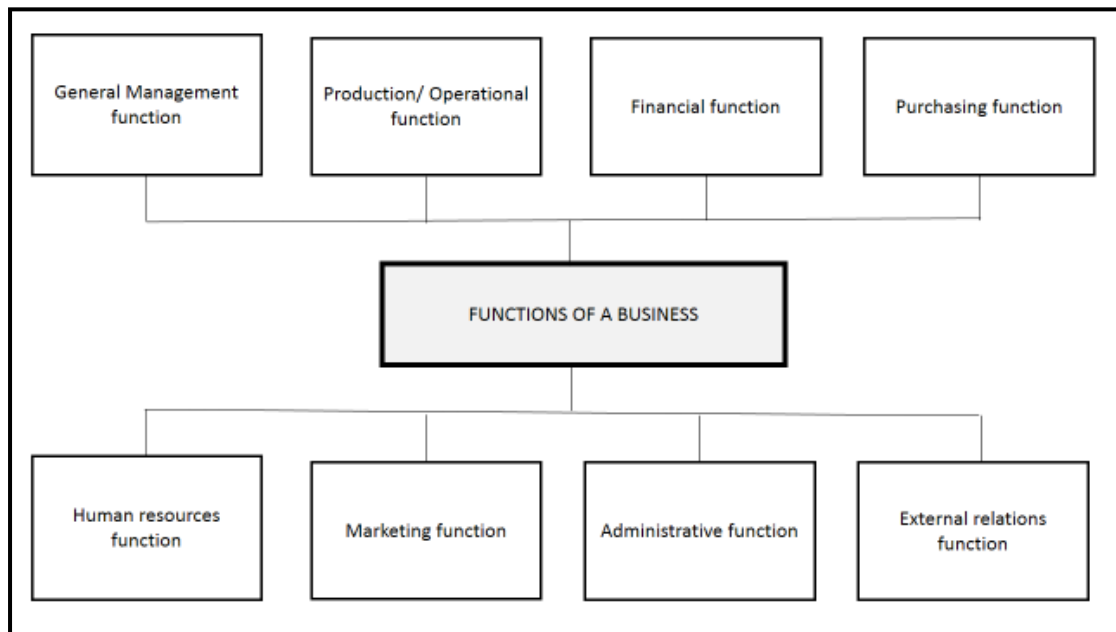
- **Communication skills:** Effective communication was explained by Longenecker, Moore, Petty and Palich (2006, p. 408) as one of the keys to a healthy organisation, and according to Jones and George (2011, p. 429-430) it increases efficiency, quality, responsiveness to customers and innovation. Timmons and Spinelli (2007, p. 277) cemented this by describing that entrepreneurs should be in a position to communicate effectively and clearly both orally and in writing to customers, peers, employees, and the public. Megginson *et al.* (2000, p. 256) brought to light the importance of communication as it allows people to know what is going on in the organisation so they can do their jobs efficiently and effectively. It also permits owners, employees, customers, vendors and others to coordinate their work, so clear and complete communication is of utmost importance.

- **Problem solving skills:** Problem solving can be defined as a process of “taking a corrective action that will solve the problem and that will realign the organisation with its goals” (Smit & Cronje 2002, p. 152). SME owner-managers are faced with problems on a daily basis and they are expected to solve them and to remain afloat within the turbulence business climate. Root (2015) advised owner-managers to develop problem resolution skills if they want to survive and have a successful SME, as problems need to be resolved quickly and decisively.
- **Decision making skills:** One of the key success factors of SMEs suggested by Smorfitt (2008, p. 41) is the owner’s ability to make correct decisions. When good decisions are made, this can result in a better selection of appropriate goals and courses of action that can help to increase the performance of an organisation (Jones & George 2011, p. 159). SME owner-managers have to gather adequate facts and analyse the alternatives before taking a decision and acting on the decision made.
- **Negotiating skills:** Negotiation is “the process of developing workable solutions through discussions or interactions” (Longenecker *et al.* 2006, p. 409). Timmons and Spinelli (2007, p. 269) advised owner-managers that they should be in a position to work effectively in negotiations and should have a skill to quickly balance value given and value received. Owner-managers should reach agreements that both meet the requirements of an organisation and contribute to good relationships over time in order to have a successful business (Longenecker *et al.*, 2006, p. 409); and need to know when to back down at a specific point of negotiations (Mahadea and Youngleson, 2013, p. 230).

On a personal level, successful SME owner-managers are able to take risks, they have a desire to achieve, they are fully committed to and involved in every aspect of the business, they have confidence in what they do and persevere, they work closely with key stakeholders and they are especially able to understand and execute functional management activities (Van Aardt *et al.*, 2013, p. 6-7). The focus of this study is on these functional management activities.

According to Van Aardt *et al.* (2013, p. 8) there are eight management functions, which were confirmed by Nieuwenhuizen (2013, p. 2) and Strydom (2013, p. 12). Figure 2.1 shows these eight functions.

**Figure 2.1: The eight management functions of a business**



Source: Strydom (2013, p. 12)

There are also certain activities that form part of each management function according to Van Aardt *et al.* (2013, p.8) as shown in Table 2.1.

**Table 2.1: Functional management**

<b>Function</b>	<b>Activities</b>
General management	Overarching activities that are important for the entire enterprise or business, including planning, organising, leading and controlling
Operations/Production	Producing goods
Finance	Managing the financial affairs of the business, including efficient use of funds and investment decisions
Purchasing/Procurement	Making sure the business has all the production means it needs to realise its objectives
Human Resources	Staff recruitment, training, compensation and retention
Marketing	Transferring goods and services to customers to satisfy their needs
Administration	Obtaining data, keeping records and analysing them in order to track results
External Relations	Also seen as public relations which deals with the business as a whole and the promotion of its image

Source: Van Aardt *et al.* (2013, p. 8)

SME owner-managers who have a knowledge of all these functions and/ or who appoint specialists to manage each function are enhancing the sustainability, growth and success of their new and existing business ventures. These can however not be taken for granted and owner-managers should ensure that their competencies are evaluated and addressed in good time.

It is important to explore each of the eight management functions from a SME perspective as they can differ from those in larger organisations.

#### **2.4.1 General management**

Smit and Cronje (2004, p. 278), defined leadership as “the process of directing the behaviour of others towards the accomplishment of the organisation’s goals.” Leadership involves elements like influencing people, giving orders, motivating people, either as individuals or as a group, managing conflict and communicating

with employees (Smit & Cronje, 2004, p. 278). Entrepreneurs without good leadership skills will find it difficult or impossible to rise above mediocrity and this might be due to the fact that leadership is a difficult task to learn and the skills needed to get it right are forever or constantly changing (Zimmerer & Scarborough 1998, p. 418).

Management skills are crucial to SME owner-managers since they assist with planning, organising, leading and controlling the relevant resources (Pillay 2006, p. 36). Jones and George (2011, p. 7-10) indicated that these are four essential tasks of management that are performed in a small business enterprise to enable it to attain its goals and these include:

- Planning, which according to Hellriegel et al. (2008, p. 10), involves establishing the overall direction for the SME's future, identifying and committing the organisation's resources to achieving its goals and deciding which tasks must be done to reach those goals (Hellriegel et al (2008, p. 10).
- Organising, which according to Hellriegel et al. (2008, p. 10), provides organisations with and have organisational structure that allows them to function effectively and to achieve quality objectives.
- Leading, which according to Jones and George (2011, p. 7- 10), involves articulating a clear vision, motivating and enabling SME employees to understand the part they play in achieving the SME's goals. Van Aardt *et al.* (2008, p. 265) supported this by stating that a good leader communicates, empowers and motivates employees to make things happen.
- Controlling, which Van Aardt *et al.* (2008, p. 265) described as corrective measures that owner-managers take to deal with undesired events and their effects and these include internal controls, checks, balances and prevention of mistakes.

When SME owner-managers do not have management or technical expertise, the risk of business failure greatly increases (Smorfitt, 2008, p. 202).

#### **2.4.2 Operations**

SMEs also have to deal with the function of manufacturing of their products and scheduling of workflows. Timmons and Spinelli (2007, p. 269) mentioned that SMEs should have the ability to plan and manage the processes of production, to manage

workflow and to do schedule calculations and flows for rising sales level. Nieuwenhuizen (2011, p. 202) further explained that SMEs should make sure that adequate quantities of raw materials and components are available to meet schedules of production yet conservative enough to save costs in carrying inventory (Coyle, Langley, Gibson, Novack & Bardi 2009, p. 48).

Stock control was defined by Timmons and Spinelli (2007, p. 268) as one's familiarity with the techniques that are used in controlling in-process and finished goods stock of materials. The Just-in-Time inventory system was designed to reduce waste, storage and inventory holding costs because materials and supplies are delivered at a facility just when they are needed (Pride et al., 2012, p. 296). Stock management is very crucial in any business and it is therefore very vital for owner-managers to effectively control their stock levels and purchasing quantities (De Beer et al. 1996, p. 88). Poor inventory control and larger inventories can result in losses due to spoilage, can encourage employee theft and prevent businesses from recognizing shoplifting problems or even knowing how much is being lost due to theft. Longenecker *et al.* (2003, p. 515) concluded that inventory should be maintained at an optimum level and thus a level where stock outs are minimised as well as eliminating excess inventory. This therefore saves money and contributes towards operating profits (Longenecker *et al.* 2003, p. 515).

SMEs should ensure that they offer high quality products and services to their customers as well as it is the quickest way to close their businesses, a regardless of how brilliant their management and marketing strategies are (Nieuwenhuizen 2004, p. 267; Van Aardt *et al.*, 2008, p. 254). De Beer *et al.* (1996, p. 107) advised owner-managers to have a control system that will help them to ensure that the production means fulfil the quality standards. Nieman and Nieuwenhuizen (2009, p. 21) made a recommendation to owner-managers that they should note that quality products are not necessarily expensive and successful entrepreneurs can supply their customers with quality products and still make a profit.

### **2.4.3 Finance**

Most owner-managers lose control of their finances and this was one of the reasons that Sitarz (2006, p. 15) said that most business failures are caused by entrepreneurs'

inability to understand complex accounting processes and systems. Financial record-keeping systems in businesses are used to provide a vision of the health of the business on a day-to-day basis and over a certain period. Owner-managers should have budgeting skills because these skills enable them to make accurate estimates of the cash flow requirements of the organisation (Mahadea & Youngleson 2013, p.234). Entrepreneurs have little or no chance of succeeding in business if they cannot understand their financial situation since they will have to know if they are making a profit or not, why they are making or not making profit and which parts of the business are profitable or not (Sitarz 2006, p. 15).

Poor cash flow management has also been noted as one of the causes of business failure in South Africa and Mahadea and Youngleson (2013, p. 235) recommended business owners to have the ability to set up a cash flow budget and plan and manage cash controls. Morris (2008, p. 107) highlighted that it is of crucial importance to manage finance; therefore small business managers should ensure that financial records are properly set and frequently maintained.

Cash has been referred to as the lifeblood of an SME so owner-managers should develop the “art of being slow to spend cash and quick to acquire cash” (Mahadea & Youngleson 2013, p. 235). It can be too difficult for owner-managers to make informed decisions about the business if he/she has no idea of the company’s financial position (Mahadea & Youngleson 2013, p. 235).

The other reason why owner-managers should have accurate financial statements is for income tax purposes, for loan proposals and for the purposes of selling the business (Sitarz, 2006, p. 15). The Companies Act, No. 71 of 2008 (SA 2008) contains the legislative requirements regarding auditing, taxation and reporting (Mahadea & Youngleson 2013, p. 235). In order for owner-managers to design a good recordkeeping system, Sitarz (2006, p. 15) advised them to have a better understanding of certain fundamental ideas of accounting.

SME owner-managers should have a balance between controlling their costs and ensuring that salaries, wages and benefits are competitive. This is not easy to do because it is often the most costly for SMEs. However, in recent years, South Africa has experienced a high level of strike actions due to pay disputes and this shows that

it has been difficult for managers to achieve this balancing act (Hunter 2010, p. 146). However, competitive compensation packages can help SMEs to attract and retain the talent needed to ensure sustainability, profitability and continued growth.

#### **2.4.4 Purchasing**

Buying, leasing or hiring of equipment is also one of the functions that SMEs have to deal with. Leasing and hiring are approaches that are closely related as they can be taken together where ownership of capital equipment remains with another organisation and the client organisation pays for the use and possession of the capital equipment (Baily, Farmer, Crocker, Jessop and Jones 2008, p. 334). Owner-managers can enjoy the benefits of leasing and hiring of equipment because it is often cheaper to hire than to buy and it allows for more business flexibility (Baily *et al.* 2008 p. 334-335).

Benton (2007, p. 311) highlighted that buying capital equipment is one of the major decisions that most organisations have to make as it significantly affects numerous aspects of the organisation's financial health. He (Benton 2007, p. 311) explained that large firms are at an advantage over small businesses as they usually have an expert equipment buyer with particular industry expertise who can assist them with the capital equipment acquisition process. SME owner-managers were advised to carefully plan the timing of acquiring capital equipment because once these decisions have been made, they cannot be easily reversed (Benton 2007, p. 311). Hugo, Badenhorst-Weiss and Van Biljon (2006, p. 320) highlighted some aspects about buying capital equipment that most managers overlook and these include "intellectual property rights, speed of acquisition, installation, continuing supplier support and upgrades".

Nieuwenhuizen (2011, p. 9) stipulated that the procurement of resources include "the determination of purchasing needs, the establishment of alternative suppliers who can satisfy these needs and the negotiation of agreements with them to the long-term advantage of the organisation". Owner-managers of SMEs have to perform the function of procurement of materials and services and also have to continuously monitor their suppliers and manage the buyer-supplier relationship (Mangan *et al.* 2008, p. 77). Baily *et al.* (2008, p. 127) urged small businesses to outsource their



procurement activities if they are to concentrate on their core competencies if procurement is not one of them.

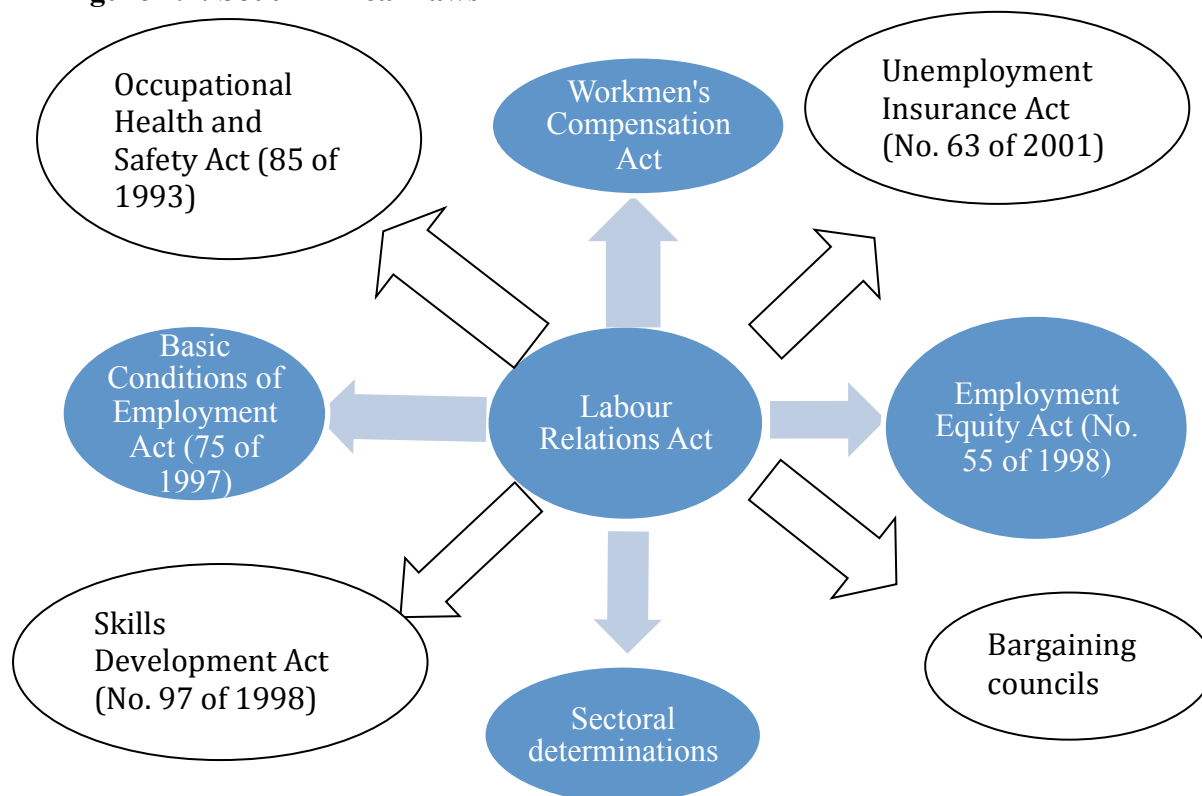
#### **2.4.5 Human resources**

Hiring decisions of new employees are essential in any organisation regardless the size and nature of a business. Zimmerer and Scarborough (1998, p. 421) advised owner-managers that “bad hires” are highly costly to any organisation, big or small, and no one can afford too many of them. Some of these costs include salaries, benefits and training of the new staff and in terms of intangible costs, an organisation can experience lost time invested in the new employee, lost opportunities, reduced morale among co-workers and business setbacks (Zimmerer & Scarborough (1998, p. 421).

The South African Government over a number of years published a series of legislation in order to protect employers and the employees (Gordon-Davis & Cumberlege 2007, p. 168). The South African system of labour relations revolves around different rules, processes, structures, and procedures that the state, businesses, trade unions, employers and employees use to manage their relations within the workplace (Gordon-Davis & Cumberlege 2007, p. 168).

The 2014/15 Global Competitive Report indicated that in South Africa, restrictive labour regulations were the most problematic factor for doing business in the country. Concerns were raised when Fin24 (2013, n.p.) reported that SME owner-managers were increasingly less confident that the stringent labour laws in South Africa can promote the growth and sustainability of SMEs. The Figure 2.2 summarises the South African labour laws in terms of the Labour Relations Act No. 66 of 1995.

**Figure 2.2: South African laws**



Adapted from Gordon-Davis and Cumberlege (2007, p. 168)

The various labour enactments, as indicated in the Figure 2.2, give rise to the key policies that the South African Department of Labour adopts, which are as follows:

- To leave the regulation of labour relations to employers and employees as far as is possible,
- To legislate only for minimum conditions of employment,
- To provide adequate procedures to regulate collective bargaining and negotiation,
- To provide for collective agreements and dispute resolution,
- To ensure a negotiating balance between employers and employees, and
- To consult business, labour, and the community representatives whenever changes to labour legislation are considered. This is primarily achieved through the National Economic Development and Labour Council (NEDLAC).

Zimmerer and Scarborough (1998, p. 421) sympathized with SMEs by mentioning that hiring decisions in small businesses are marginalized, since owner-managers are

most likely to make hiring mistakes due to the fact that they lack the human resource expertise and the disciplined hiring procedures that large organisations have.

#### **2.4.6 Marketing**

Zimmerer and Scarborough (1998, p. 137) defined marketing as a process of creating and transferring of desired products or services to the consumer as well as other activities that are associated with winning and retaining loyal customers. Govender (1990, p. 48) highlighted the severity of the lack of marketing in SMEs. The marketing function is crucial in every business because through marketing of products and services, the entrepreneur generates awareness and attracts customers to increase profits (De Beer, Kritzinger, Venter, Steyn, Labuschagne, Ferreira, Groenewald and Stapelberg, 1996, p. 45), but marketing is often costly and SMEs do not have the finances to embark on costly marketing campaigns.

Zimmerer and Scarborough (1998, p. 137) and De Beer *et al.* (1996, p. 46) advised entrepreneurs that the secret to success in marketing is to first identify and understand the target customers' needs, demands, and wants and to provide these better than competitors; and additionally to provide excellent customers service, convenience and value.

Owner-managers have a choice of selling their products directly to the consumers or through wholesalers or distributors and both choices are available within most industries, so the decision can depend on how the company believes its target market wants to purchase its product (Barringer & Ireland 2010, p. 396). Timmons and Spinelli (2007, p.136) highlighted that having access to the distribution channels is something that owner-managers often overlook or take for granted. Scarborough (2011, p. 278) emphasized that the importance of distribution has increased as customers expect greater service and more convenience from businesses. Allen (2006, p. 77) advised entrepreneurs to consider various distribution channels that other companies in the same industry as theirs use before choosing a distribution strategy. This will provide owner-managers with an indication of customer expectations about time and place of delivery and it also helps in revealing opportunity gaps thereby allowing owner-managers to come up with innovative distribution strategies to serve a group of customers that may not currently being served (Allen 2006, p. 77). Costs, market coverage, level of control, speed and reliability and type of intermediary are

some of the factors that entrepreneurs should consider when determining the most effective distribution strategy.

Timmons and Spinelli (2007, p. 136) stipulated that the new channels of distribution can leapfrog and demolish the traditional channels of distribution and that is why Scarborough (2011, p. 278) encouraged entrepreneurs to come up with innovative and better ways to distribute their products and services and provide more convenience to their customers. Terkan (2014, p. 239) stressed how businesses are becoming more creative and flexible in ways that they are reaching consumers as new media is making this possible with the increased use of online sales channels like, E-bay, Amazon.com, Bid or Buy, Take a lot, Loot.

#### **2.4.7 Administration**

New and growing SMEs find it costly and complicated to comply with the forever changing government rules and regulatory paperwork (Allen, 2006, p. 386). Mahadea and Youngleson (2013, p. 230) provided the legislative information that owner-managers should comply with and these include the Companies Act, No.71 of 2008 (SA, 2008), which stipulated on issues relating to the “registration, incorporation, organisation and management of companies, the capitalisation of profit companies and the registration of offices of foreign companies conducting business in the country”. It is highly advisable for owner-managers to have adequate knowledge of the legislative environment in which their organisation operates. Owner-managers are also encouraged by them to familiarise themselves with contract law on different types of contracts and agreements, like hire purchase and lease agreements, sales contracts, supplier contracts and finance agreements to mention a few. Acts that deal with intellectual property (trademarks and patents) rights include the Copyright Act, No.98 of 1978 (SA, 1978), the Trademarks Act, No.194 of 1993 (SA, 1993), the Patents Act, No.57 of 1978 (SA, 1978), and the IPR-PFRD Act, No.51 of 2008 (SA, 2008) should also be understood by owner-managers as mentioned by Mahadea and Youngleson (2013, p. 230).

A business can be shut down over outstanding PAYE, UIF and other taxes as SARS can pursue criminal charges against management and that is why Mahadea and Youngleson (2013, p. 440) found it worth mentioning to owner-managers to have knowledge of taxation and VAT laws. The Acts that should be complied with include

the Income Tax Act, No. 8 of 1962 (SA, 1962), the Secondary Company Tax (STC) and the VAT Act, No 89 of 1991 (SA, 1991). Last but not least is the Credit and Insolvency laws that deal with fraud and unjustified enrichment and the Acts that should be adhered to include the Insolvency Act, No.24 of 1936 (SA, 1936), and the National Credit Act, No. 34 of 2005 (SA, 2005). Mahadea and Youngleson (2013, p. 230) specified that this is not an exhaustive list of legislative compliance requirements and encouraged owner-managers to rather sort legal advice in order for them to have a better understanding of South African legislative requirements.

General daily, monthly and annual administration and filing are also necessary to ensure that the necessary records are kept and easy to access when necessary. A good filing and computer system can assist SMEs.

#### **2.4.8 External relations**

Van Aardt *et al.* (2008, p. 287) stipulated that customer service goes beyond meeting contractual obligations and looks at all the aspects that would indirectly or directly affect customer satisfaction. Customer service is important to owner-managers as it ensures continuous business and that indirectly impacts the business in a positive way as continuous business translates to profit, thereby justifying a saying “take care of the customers and profit will follow” (Van Aardt *et al.* 2008, p. 288). Good customer service is closely related to the quality of the entrepreneurs’ products and services and by meeting the customers’ expectations, entrepreneurs ensure customer satisfaction which is closely connected to marketing (Nieman & Nieuwenhuizen 2009, p. 21). The authors went on to explain that there is a higher probability of satisfied customers using the products or services of an enterprise again and recommending the use of the organisation’s products and services to prospective new customers. Nieuwenhuizen (2011, p. 41) gave examples of cheaper customer service techniques that small business managers can adopt in their business and these included having small gestures like having balloons and stickers for kids, being friendly and providing helpful service to their customers.

From the above discussion thus far, it is evident that SME owner-managers need a lot of different skills to ensure sustainable, growing and profitable business ventures. It is therefore critical to identify the current skills that owner-managers have, to match it to

the required skills, as indicated in the above discussion, to find specific weaknesses, and to identify ways to develop the necessary skills and assist owner-managers to create and manage sustainable, growing and profitable ventures to create job opportunities and to help South Africa to develop its economy. A skills audit can help to do this.

## **2.5 THE ROLE OF SKILLS AUDITS**

Watson (2004, p. 1) gave a number of reasons for the importance of information that can be derived from a skills audit and this includes that if an organisation has that information, about their skills base, it is easier for the organisation to identify areas that need to be improved, since management will be in a better position to understand the skills gaps that may exist and how to effectively fill those skills shortfalls. The results of a skills audit can also essentially assist organisations to have a better plan and to put more focus on their training and development (Watson 2004, p. 1). Watson (2004, p.1) further described that a skills audit can also provide some important information that can help organisations to identify people without sufficient skills who need development.

Watson (2004, p. 3) explained that an organisation that conducts a skills audit is more likely to experience increased productivity because suitably qualified people will be matched with right positions. Cottrill (2010, p. 9) advised that individuals are more likely to be kept engaged, challenged and motivated if they are presented with opportunities to enhance their professional qualifications and to learn new skills.

However, despite all the “praises” on the importance of skills audit, there is less little to no literature available on the challenges are associated with conducting a skills audit. Watson (2004,p. 9) indicated the cost implications that are incurred during skills audits and these include training, time, administrative expenses, for example, stationary, information system/software, communication and use of consultants. SMEs in South Africa have limited access to finance and conducting a skills audit might be costly to small businesses, as they might even have to hire the services of a consultant to conduct the skills audit for them. Kleynhans (2013, paragraph 2) advised owner-managers that skills audits is often threatening to employees therefore there is need for them (owner-managers) to discuss with their employees about the reasons

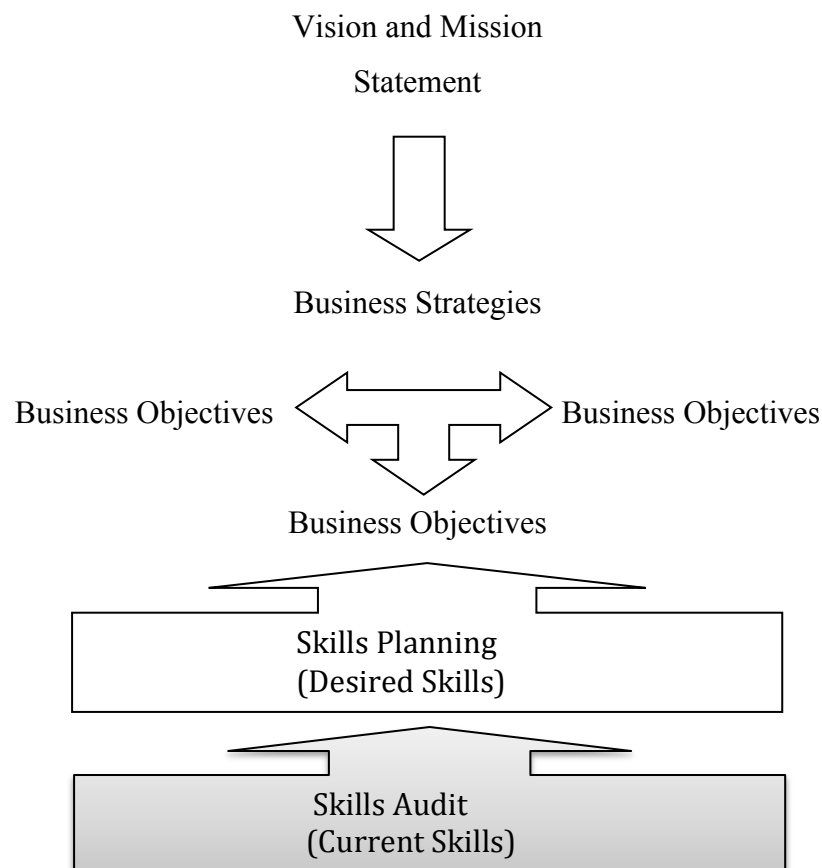
why they will be conducting the audit, methods to be used in the process and what to expect. According to UK essays (2015, 3-4) conducting a skills audit takes a long time as it demands patience and attention to detail, it can be complex to implement and expensive to conduct. However it was suggested that the costs of conducting a skills audit outweigh the initial drawbacks that are associated with not conducting a skills audit as an organisation ends up paying more because of low productivity levels and skill shortages become an organisation's largest liabilities. UK essays (2015, p. 4) write that "when training is well planned and delivered appropriately, the trained workforce become the largest asset for the organisation".

The aim of a skills audit according to Tustin (2003, p. 36) is to identify current and future skills needs. Therefore a skills audit can be regarded as important to any strategy that focuses on increasing business efficiency and competitiveness, supporting the creation of jobs and the social upliftment efforts. Van der Westhuizen and Wessels (2011, p. 332) said that skills audits are important for SMEs as it provide answers to the following questions:

- What skills actually exist within the organisation;
- How these compare with the organisational skills requirements as determined through the workforce planning and job analyses process;
- What the skills development priorities are (per occupational group, levels and geographic profile);
- How and when the skills development priorities may be best addressed through a systematic plan;
- What the key success indicators/measures of the workplace skills plan will be;
- How to implement, track and monitor progress; and
- What to report to management and the relevant SETA (Van der Westhuizen & Wessels 2011, p. 332).

BankSeta positioned skills audits in the skills development process as the first step in Figure 2.3.

**Figure 2.3: BankSeta workplace skills plan guidelines**



Adapted from Meyer (2007, p. 179)

Figure 2.3 above shows that a skills audit determines the current skills that are available in an organisation and compare the actual skills to the required skills (Meyer 2007, p. 179; Watson (2004, p. 1). These required skills as Meyer (2007, p. 179) put it, may be either those already required by individuals to fulfil their roles and complete current tasks and processes, or alternatively, those required of employees to meet future business objectives in accordance with the organisation's business strategies.

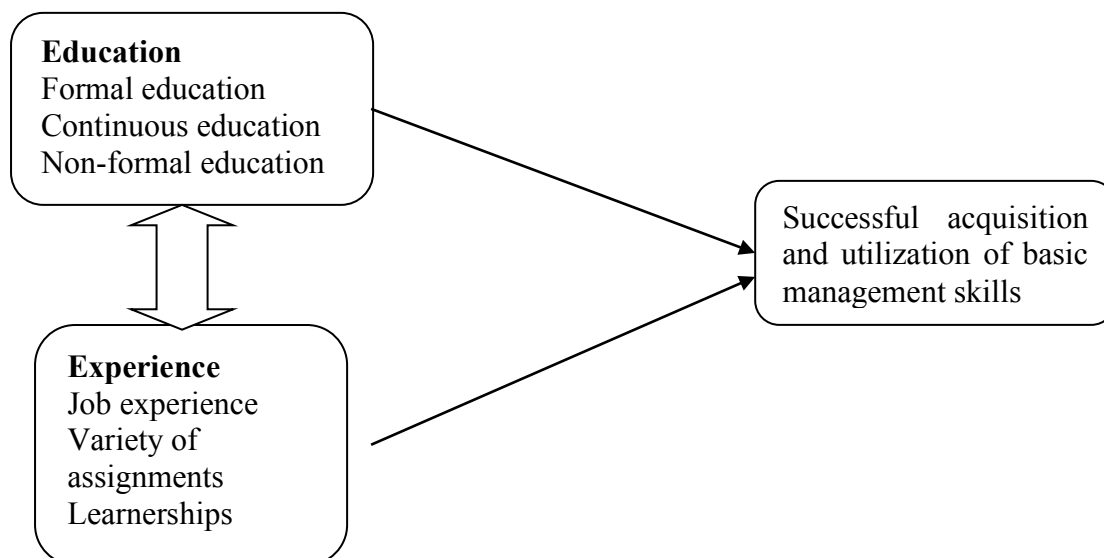
## **2.6 DEVELOPING THE SKILLS OF SMALL MEDIUM ENTERPRISES OWNER-MANAGERS**

In order for South Africa to have a competitive advantage in the global world, the skills profile of SME owner-managers has to be raised. Van Aardt *et al.* (2008, p. 283) said that owner-managers should realise that their own skills and that of their human resources are the most essential element for business success and growth.



Skills according to Perks and Smith (2006, p.3) are knowledge that individuals acquire through formal and non-formal education or training and as well as through experience. Erasmus (2005, p.1-2 & 28) went on to highlight that through education, owner-managers will be in a good position to apply the acquired skills in a way that will allow them to successfully achieve their business objective. Owner-managers can also acquire skills through their work experience and it is argued that the work environment is where “entrepreneurs” learn the most (OECD 2010, p.167). The table below shows how education through formal, non-formal and continuous education together with experience that can be acquired through learnerships and job experience can lead to owner – managers acquiring and utilizing their management skills in a way that allows them to run their businesses successfully. Smit and Cronje (2002, p. 20) provided the sources of managerial skills development through the use of Figure 2.4.

**Figure 2.4: Sources of management skills**



Extracted from Smit and Cronje (2002, p. 20)

Figure 2.4 is helpful to show how skills can be developed in SME owner-managers and it is useful to support these with human resources development strategies as well. Nieman *et al.* (2003, p. 12) concurred with the other authors by highlighting that management skills can be developed through a combination of experience, learning, skills transfer apprenticeship, education and training. Radipere and Van Scheers (2005, p. 403) concurred with other authors when they said that, “management skills can be improved through training programmes and practical experience”. Hunter

(2012, p. 31) also agreed that the two main sources of the skills and knowledge of people is their experience and their training and education

Agbenyegah (2013, p. 224) and Fatoki and Chindoga (2011, p.165) agreed that entrepreneurship education is one of the initiatives that help to enhance entrepreneurship and management skills. While Hunter (2010, p. 234) advised owner-managers that they need effective training in order for them to be competitive with regards to quantity, quality, and price of the products and services that they produce, as the key to competitiveness is a high level of productivity and this can only be achieved if they are highly skilled.

A more recent study that was conducted by Rabie, Cant and Wiid (2016, p. 1021) revealed that SME owner-managers had various practices in place to encourage and enforce their skills and a recommendation was made for SME owner-managers to continue investing in training and development, thereby highlighting the need for training. However it is unfortunate to know that despite the importance of SME training and development, less research on training and development of SMEs have been conducted (Rabie *et al.* 2016, p. 1021). Even though training was regarded by Rabie *et al.* (2016, p. 1009) as one of the most important factors in the business world as it assists in developing the competences and efficiency of entrepreneurs, it is rather unfortunate that most SME owner-managers have no available capital to invest in developing their skills.

Rabie *et al.* (2016, p. 1011) went on to advise owner-managers of SMEs on some various important training and development initiatives that they should consider to grow and develop and these are:

- Basic accountancy training
- Career development initiatives
- Communication, people and social skills
- Computer training
- Customer service training
- Executive/managerial training
- Leadership training
- Literacy/numeracy training
- Training on how to market their (SME owner-manager) businesses

- Strategic planning for business training, and
- Technical training

Sherazi, Iqbal, Asif, Rehman and Shah (2013, p. 1326-1327) advised that due to limited resources available to SMEs, owner-managers can the use of informal training as another way of developing their skills. Mentorship networks assist entrepreneurs by providing people who will inspire, mentor and coach through the journey of entrepreneurship (GEM 2015/16, p. 64). Sherazi *et al.* (2013, p. 1326-1327) mentioned that informal training is an inexpensive and appropriate way of training as the training happens on the job, job rotations and informal seminars, however these informal trainings are not much effective for the development of SME owner-managers.

Mataboee, Venter and Rootman (2016, p. 1-2) identified that mentoring is important for the development of owner-managers management skills and ultimately the survival of SMEs. Unfortunately, regardless of the importance of mentoring as a development tool for SMEs, there is not much information available on mentoring of SMEs in South Africa (Clutterbuck & Abbott 2012, p. 74). As was identified by Smit and Cronje (2002) Radipere and Van Scheers (2005) and Nieman *et al.* (2003) that experience helps in developing the skills of SMEs, Allen (2006, p. 165) highlighted that as entrepreneurs grow in the knowledge of their industry, they naturally gather better information because they know whom to talk with and where to find the best industry intelligence. However, Massey (2004, p. 458) raised some doubts of what can be taught when they highlighted that there is a limit to what can be taught, but argued that personal experience is the best teacher of entrepreneurship. Agbenyegah (2013, p. 207) was in disagreement with other authors by arguing that there has been no evidence that shows correlation between industry experience and business operations.

Organisations such as Sector Education Training Authorities (SETAs) provide a lot of management training programs in every sector. The Department of Trade (DTI) also helps as it is linked to several organisations that are business service providers (Van Aardt *et al.* 2008, p. 249). In order to develop entrepreneurial finance skills and competencies, Fatoki and Chindoga (2011, p. 165) advised the organisations such as

the South African Banking Association can provide with training on finance skills and competencies.

It is therefore important to develop the skills of owner-managers, especially those skills that are related to managerial functions as managerial skills and competencies are important for the growth and survival of SMEs thereby reducing failure rate (Chimucheka 2013, p. 786). Radipere and Van Scheers (2005, p. 403) went on to lament on how developing managerial skills can result in improved business operations that can assist with employment creation in South Africa. Fatoki (2014, p. 926) concluded by highlighting the need for owner-managers to personally develop their business management skills through training. Developing the skills of SME owner-managers can also result in increased productivity because owner-managers will be more efficient in organising and managing their business operations and will be in a better position to attract more customers, negotiate better with suppliers as well as raising more capital from investors (Dullayaphut & Untachai, 2013, p. 63).

## **2.7 CONCLUSION**

This chapter started with highlighting the importance of SMEs in the South African economy. The problems that are faced by SMEs were also discussed as these can cause SME failure. These problems among that factors included skills shortages, high failure rates regulatory constraints as well as lack of access to finances. Key small business management functions and skills were also discussed. Towards the end of this chapter, education and job experience were identified as ways of developing skills of SME owner-managers. The following chapter (Chapter 3) provides the research methodology of this study.

# **CHAPTER 3**

## **RESEARCH METHODOLOGY**

### **3.1 INTRODUCTION**

Research methodology is the principles, procedures, and practices that govern research, thus the entire process of conducting the research project (Marczyk, DeMatteo & Festinger 2005, p. 22). The research objectives as well as the research design that were adopted to meet the objectives are highlighted in this chapter. The targeted population, collection of data and methods of analysing the data analysis methods that were used for this research will also be discussed. The reliability, validity and delimitations of the study are provided below. Towards the end of this chapter, ethical considerations that were taken into account during and after the study are also discussed.

The primary objective of this study was to conduct a skills audit for owner-managers of selected SMEs in Pietermaritzburg (PMB) to prevent business failure rates.

To meet the primary objective of this study, the following secondary objectives were set, namely:

1. To establish which skills owner-managers need to successfully start and manage a small business;
2. To conduct a skills audit;
3. To determine the skills of SME owner-managers in PMB;
4. To critically assess the skills shortcomings of SME owner-managers in PMB in comparison to the required skills of successful entrepreneurs; and
5. To recommend steps to match the available skills to the required skills with the help of government, educational institutes and businesses.

### **3.2 RESEARCH PHILOSOPHY**

There are two different worldviews that motivate quantitative and qualitative research where quantitative research is described as being realist or positivist and qualitative research is described as subjectivist (Muijs 2011, p. 3).

### **3.2.1 Qualitative Research**

Teddlie and Tashakkori (2009, p. 6) defined qualitative research methods as the “techniques that are associated with gathering, analysis, interpretation and presentation of narrative information”. They (Teddlie & Tashakkori 2009, p. 6) described that qualitative research questions are answered in a narrative form and the data is analysed using inductive and iterative techniques like categorical strategies and contextualizing (holistic) strategies. Qualitative data analysis according to Teddlie and Tashakkori (2009, p. 6) can also be referred to as thematic analysis because the strategies that are used usually result in themes.

### **3.2.2 Quantitative Research**

On the other hand, quantitative research methods are the “techniques associated with gathering, analysis and interpretation of numerical information” and quantitative data analysis is the analysis of numerical data, therefore the answers to quantitative data are presented in numerical form (Teddlie & Tashakkori 2009, p. 5). Qualitative researchers were described by Muijs (2011, p. 4) as different from positivist in that they point out the role of human subjectivity in the research process and that the truth is not “out there” to be objectively and dispassionately observed by humans, but is at least in part constructed by humans and their observations. Subjectivists also believe that there is no pre-existing objective reality that can be observed, reality changes and transforms during the observation process and thereby subjectivists can be described as relativistic (Muijs 2011, p. 4). In the world of subjectivists, everyone interprets the world in their own different way, and everyone creates their realities through individual and unique interpretation (Quinlan 2011, p.13).

It was described by Quinlan (2011, p. 13) that positivists view the world having one reality of which everyone is a part. This was cemented by Muijs (2011, p. 4) who mentioned that according to positivism, the world works in accordance with “the laws of cause and effect and then scientific thinking is used to examine these theories about laws, and either reject or provisionally accept them”. Positivists also believe that researchers can objectively study the physical world from a well-developed and reliable measurement instrument” (Muijs 2011, p. 4). Muijs (2011, p. 4) maintains

that the positivist view suggests, “the truth is out there to be objectively measured and found through research”.

It has been outlined that positivism is used by different authors in a number of ways as some writers refer to it as a descriptive category as it describes a philosophical position that can only be differentiated through research. It can also be described as pejorative, thus it describes basic and often superficial collection of data (Bryman & Bell 2007, p. 16). According to Welman *et al.* (2005, p. 6), the positivist approach is also referred to as the quantitative approach. Hussey and Hussey (1997, p. 54) cemented this by tying it up through differentiating the two main paradigms of research in a table provided below.

**Table 3.1 Dimensions of difference between positivistic paradigm and relativistic paradigm**

<b>Positivistic Paradigm</b>	<b>Relativistic Paradigm</b>
Produce quantitative data	Produces qualitative data
Uses large samples	Uses small samples
Concerned with hypothesis testing	Concerned with generating theories
The location is artificial	The location is natural
Data is highly specific and precise	Data is rich and subjective
Reliability is high	Reliability is low
Validity is low	Validity is high
Generalises from sample to population	Generalises from one setting to another

Adapted from Hussey & Hussey (1997, p. 54).

For the purposes of this study, a positivism philosophy was adopted because the main aim was to identify the skills that are needed by owner-managers of SMEs in Pietermaritzburg and then compare the required managerial skills to the current managerial skills. Therefore, positivism was appropriate for this study because there was one objective reality, there was no ambiguity, and the answer was either that owner-managers of SMEs in Pietermaritzburg possess the required managerial skills or they do not (Quinlan, 2011, p. 104). Positivism suited this research method better because the research was quantitative in nature and the number of the members of Pietermaritzburg Chamber of Business is large thereby presenting a large sample, as was earlier mentioned by Hussey and Hussey (1997, p. 57) that the positivistic approach uses large samples.

### 3.3 RESEARCH DESIGN

Welman, Kruger & Mitchell (2005, p. 52) defined a research design as the “map” that a researcher will follow to obtain research respondents and collect information from them. Zikmund (1994, p. 48), on the other hand, described the research design as the master plan specifying the methods and procedures that the researcher will use to collect and analyse the information needed. According to Zikmund (1994, p. 48), exploratory, descriptive and causal research designs are the three main classes of research designs.

Coldwell and Herbst (2004, p.10) defined exploratory research as research into an area where tentative hypotheses already exist about a particular relationship, however, that does not provide a warrant to conduct a full-scale study until after gaining a greater clarity. As was mentioned by Coldwell and Herbst (2004, p. 10) that untried measuring instruments whose reliability and validity have not been rigorously tested can also be used in exploratory research. Coldwell and Herbst (2004, p. 10) described that through exploration, concepts are clearly defined, priorities are well developed and operational definitions are developed, thereby improving the final research design.

Exploratory research design is appropriate when there is an unclear understanding of the research problem (Ghauri, Gronhaug & Kristianslund 1995, p. 27-28). According to Hussey and Hussey (1997, p. 10), exploratory research is conducted when there are few or no studies conducted before that the researcher can refer to for information about the research issue or problem at hand. It helps researchers to clearly develop concepts; better establishment of priorities, operational definitions can be easily developed and this can also result in the better improvement of the final research design (Cooper & Schindler 2001, p. 139). Exploratory research is aimed at looking for patterns, ideas or hypotheses but does not involve testing or confirming the hypothesis (Hussey & Hussey 1997, p. 10). Qualitative and quantitative research techniques are both applicable to exploration but it is advised that exploratory research relies more heavily on qualitative techniques (Cooper & Schindler 2001, p. 139).

Causal study is a research design in which the main emphasis is to determine the cause and effect relationships (Blumberg, Cooper & Schindler 2008, p. 197). It



describes the relationships among variables, for example, why there is a higher rate of crime in Johannesburg than in Pietermaritzburg (Blumberg *et al.* 2008, p. 197). Coldwell and Herbst (2004, p. 11) portrayed that causal research aims at demonstrating that changing one variable can result in some significant change in the other variable. Coldwell and Herbst (2004, p. 12) indicated that there is always an “assumption that the one variable that has to be forecasted (the dependent variable) is usually related to one or more independent variables” when dealing with casual research techniques. If a researcher has to establish a causal relationship and information is available on the future development of the independent variable(s), it is apparently possible to forecast the dependent variable (Coldwell & Herbst 2004, p. 12). One of the disadvantages of causal research includes that they are “always probabilistic and never ascertained conclusively through the elimination of other possible causal factors” (Coldwell & Herbst 2004, p. 11).

A research design that describes phenomena as they exist, was termed by Hussey and Hussey (1997, p. 10) as descriptive research. Blumberg (2008, p. 197), went on to emphasise that a study is descriptive if the researcher is interested in discovering the: who, what, where, when and how much. It is thus appropriate for identifying and attaining some characteristic information of the research problem or issue at hand (Blumberg 2008, p. 197). This was supported by Zikmund (1997, p. 38), who commented that descriptive research is mainly aimed at describing the characteristics of the targeted group or an event. Statistical techniques are usually used to present the information since data that is collected using descriptive research design is often quantitative (Hussey & Hussey 1997, p. 11). This type of research is different from the other two research techniques because of the fact that management or the researcher already realizes and understands the main problem at hand (Coldwell & Herbst 2004, p. 12).

Given the objectives of the study, to conduct a skills audit of owner-managers of SMEs in Pietermaritzburg, the exploratory research design was used. An exploratory research design was used because it enabled the researcher to learn about the dilemma that management might be facing (Cooper & Schindler 2001, p. 75). Cooper and Schindler (2001, p. 75) went further to explain that exploration is deemed very useful when researchers are unaware of the problems that they might face during the study,

and exploration also helps the researcher to clearly develop concepts, establish priorities, develop operational definitions and to improve the final research design.

Data that represent feelings, thoughts, ideas, understandings and non-numeric concepts is called qualitative data (Quinlan 2011, p. 105). Qualitative data is collected in the form of observations that are recorded in language and data is analysed by identifying and categorising themes (Terre Blanche & Durrheim 1999, p. 42). Coldwell and Herbst (2004, p. 13) advised that mathematical techniques cannot be used to analyse information gathered by means of qualitative research approach. Ghauri *et al.* (1995, p. 86) recommended that qualitative research is most suitable when the study research objectives require a comprehensive analysis into a phenomenon. Some of the advantages of qualitative research methods noted by Coldwell and Herbst (2004, p. 15) were that they allow for problems, opportunities and situations that exist in the business environment to be deeply analysed and in most cases, it is a cheaper way of gathering data compared to quantitative research techniques. Qualitative research methods allow the researchers to deeply study issues selected, openness and detail as they identify and attempt to understand the categories of information that emerge from the data (Terre Blanche & Durrheim 1999, p. 42).

According to Quinlan (2011, p. 352) qualitative data can be analysed in the following different ways:

- It can be analysed in terms of content, textually, discursively, thematically, and /or semiotically.
- It can be analysed systematically as in grounded theory approach to data analysis.
- It can be analysed in terms of significant statements and meaning units, as in, for example, Moustakas' (1994) approach to analysing phenomenological data (Quinlan 2011, p. 352).
- Computer Assisted Qualitative Data Analysis (CAQDAS) is recently developed computer assisted qualitative data analysis software. Atlas ti, NVivo and NUDIST are among other software packages that are available for analysing qualitative data (Quinlan 2011, p. 352).

However, qualitative research techniques are not scientific and therefore it is argued that one should not base important managerial decisions based on qualitative data (Coldwell & Herbst 2004, p. 15).

On the other hand, quantitative researchers collect data in the form of numbers and use statistical types of data analysis. Quantitative methods start with a series of predetermined categories usually embodied in standardised quantitative measures and use this data to make broad and generalisable comparisons (Terre Blanche & Durrheim 1999, p. 42).

This study was quantitative in nature because the aim of the research was to find out about a state of something or other and wanting to explain the phenomena (Muijs 2011, p. 6). This was true with this research because its main aim was to determine the current managerial skills of owner-managers of SMEs in Pietermaritzburg and explain the relationship between managerial skills, venture creation and management. Since the research was quantitative in nature, information was obtained through the distribution of questionnaires. This was supported by Walliman (2011, p. 97) who stipulated that questionnaires are a more suitable tool for collecting quantitative data.

### **3.4 TARGET POPULATION**

A population was described by Muijs (2011, p. 33), as the group that the researcher would like to generalize his or her findings to. It is of great importance to have a clarification on what the researcher's population will be as this will help the researcher to determine whom he or she is going to sample (Muijs 2011, p. 33). For the purposes of this study, the targeted population comprised the owner-managers of SMEs in Pietermaritzburg. According to the list provided by Pietermaritzburg Chamber of Business (PCB) as of 13 November 2013, there were approximately 784 members registered with them who form part of the target population of this study.

#### **3.4.1 Sample size**

Coldwell and Herbst (2004, p. 74) advised that a sample is the number of respondents who are selected from a larger population to be studied. The researcher's selection of his or her sample is dependent on the type of measurement that the researcher wishes to make, the nature of the population being studied, how complex the survey design is and the available resources (Breakwell, Hammond & Fife-Schaw 2000, p. 95)

The total population for this study is approximately 784 members registered with the Pietermaritzburg Chamber of Business (PCB). According to Sekaran (1992, p. 253), minimum sample size would be between 254 and 260 respondents respectively for a population size between 750 and 800 members.

### **3.4.2 Sampling techniques**

Probability sampling and non-probability sampling are the two general categories of research sampling techniques. In probability sampling, there is an equal probability for each population member to be part of the sample (Quinlan 2011, p. 208). According to Dunn (2010, p. 205), the researchers' selection of research participants in probability sampling is determined by chance

Examples of probability sampling techniques are as follows:

- Simple random sampling – involves selecting a sample at random from a sampling frame. This sampling technique is commonly used in lotteries and raffles where “elementary units in the sampling frame are chosen in a way that each unit has an equal chance of being selected” (Coldwell & Herbst 2004, p. 80). Simple random sampling has an advantage of being free from sampling bias (Coldwell & Herbst 2004, p. 80). Teddlie and Tashakkori (2009, p. 172) highlighted that a huge disadvantage of simple random sampling is that the selected population might be widely spread geographically making it expensive for the researcher to access the selected population.
- Systematic sampling – involves selecting items at systematic or regular intervals from the sampling frame (Coldwell & Herbst 2004, p. 80).
- Stratified sample – involves selecting a sample based on some known characteristic of the population, a characteristic that will have an impact on the research. With stratified sampling technique, a population is allocated to different groups in accordance with the characteristics or variables of their elements/units (Coldwell & Herbst 2004, p. 80).
- Cluster sampling – involves selecting the units or respondents who make up the population of the study when they are to be found in groups or clusters (Coldwell & Herbst 2004, p. 80-81). This sampling technique according to Teddlie and Tashakkori (2009, p. 171) occurs naturally in the population like schools and hospitals.

Haslam and McGarty (2003, p. 112) described non-probability sampling as a sampling technique where there is no specifiable probability that each population member of the population will form part of the sample. Non-probability samples are easy to draw and their major drawback is that they provide misleading results if the sample happens to be unrepresentative of the population (Ghauri *et al.* 1995, p.74). Examples of non-probability sampling are as follows:

- Convenience sample – these are the units that the researcher finds convenient and for some reason are selected. This sampling technique is best utilized for exploratory research in a situation whereby additional research will be conducted with a probability sample (Zikmund, 1997, p.428). The major disadvantage of this sampling technique is that it can be unreliable even though it is the cheapest and easiest to conduct (Coldwell & Herbst 2004, p. 81).
- Purposive sampling – This sampling technique involves selecting a sample “based on a specific purpose rather than randomly” (Teddlie & Tashakkori (2009, p. 173). Purposive samples according to Teddlie and Tashakkori (2009, p. 171) are generally small but the specific sample size might depend on the type of research being conducted. Judgement and quota sampling are the two main types of purposive sampling (Coldwell & Herbst 2004, p. 81).
- Snowball/chain sampling – This is a situation whereby the probability sampling method is used to select respondents and from the information provided by the initial respondents, additional respondents can be located (Zikmund, 1997, p. 430).
- Census sampling – Data is collected from every member of the population (Chawla, Chichra & Pandey 2013). The advantages of this approach are that information can be obtained from the whole population thereby providing exact and accurate results (Wiid and Diggines 2009, p. 193). The disadvantage is that it is often costly and difficult to perform.

For the purposes of this research study, census sampling was used as the researcher tried to contact all the members of Pietermaritzburg Chamber of Business (PCB) on the list provided by the chamber (PCB). The researcher tried to contact all the members through email or in person. This however was not successful and there was a low response rate, proving one of the disadvantages of a census sampling that it is difficult to enumerate and that it takes a lot of time. To increase the response rate, the

researcher asked respondents who responded to connect her to other members of PCB that can be part of the study. The switch from census sampling to snowball sampling, increased responses as it was found that the PCB list was not updated with the latest contact information.

### **3.5 DATA COLLECTION**

There are two types of sources of data collection and these are secondary data and primary data. Secondary data is data that already exists and sometimes this data has been assembled for other research projects than the one at hand (Quinlan 2011, p. 242; Zikmund 1997, p. 46). On the other hand, primary data is data that is collected for the purposes of solving the research problem at hand (Zikmund 1997, p. 46). The use of questionnaires, surveys, checklists, interviews, documentation reviews, observations, focus groups as well as case studies can be used to gather primary data (Coldwell & Herbst 2004, p. 48- 49). With reference to Blumberg *et al.* (2005, p. 202), the first step in an exploratory study is to review secondary literature and it was advised that the secondary sources are very helpful to a researcher as they provide useful information on the background of the study and they can also provide good leads to the researcher. For the purposes of this study, the literature review and research methodology were obtained through the use of textbooks, journals, completed theses, newspaper articles and the internet. This reviewed literature, according to Muteswa (2009, p. 73) forms the basis for the development of the research instruments and focus of the primary data collection phase.

A structured questionnaire was used to collect primary data for the purposes of this research study and Kumar (2005, p. 126) defined a questionnaire as a list of written questions to which respondents provide answers. For the purposes of this study, the first step was the study of secondary literature in order to evaluate the required skills by SME owner-managers in Pietermaritzburg. Based on literature, a questionnaire was developed that consisted of five pages with four sections. Section A consisted of all the demographic details of respondents; Section B contained questions about the organisation. Section C had all the questions that assessed the owner-managers' competencies and skill in managing their businesses. The last section had general questions that assisted in making relevant conclusions and recommendations for this study. The questionnaire consisted of a 4-point Likert scale where respondents had to

mark the designated block with a cross. Below is an example of one of the questions using the Likert scale that was used for this study where 1 indicated no competency to 4 indicated fully competent:

	No current competency	Inadequate competency	Some competency	Fully competent
Ability to encourage and motivate others	1	2	3	4

Questionnaires were then distributed to the targeted population and finally an audit of skills was conducted to evaluate if Pietermaritzburg owner-managers have the required skills that literature highlights as critical for successfully running an SME. Provided below are the advantages and disadvantages of using a questionnaire as a data collection instrument and steps that were taken in order to decrease those limitations of this instrument.

**Table 3.2: Advantages and disadvantages of using questionnaires for collecting data**

Overall Purpose	Advantages	Disadvantages
➤ When there is need to quickly and easily collect information in a non-threatening way	<ul style="list-style-type: none"> <li>➤ Respondents can complete questionnaires anonymously.</li> <li>➤ They are cheaper and easy to administer.</li> <li>➤ Questionnaires can easily be administered to many people.</li> <li>➤ A lot of data can be collected through the use of a questionnaire.</li> </ul>	<ul style="list-style-type: none"> <li>➤ A “full story” may not be discovered through the use of questionnaires.</li> <li>➤ Questionnaires can be impersonal.</li> <li>➤ The wording used in designing questionnaires can bias the respondents’ answers.</li> <li>➤ The desired and careful feedback may not be obtained through the use of questionnaires.</li> </ul>

Source: Coldwell & Herbst (2004, p. 46).

Burns (2000, p. 581) noted that it costs less to administer questionnaires especially if responses from a large and probably dispersed population are desired. Respondents also have the freedom to answer the questionnaire at their own time and at their own pace therefore reducing the feeling of fear and embarrassment by respondents from direct contact with the researcher (Burns 2000, p. 581). Walliman (2011, p. 97) agreed that since there is no personal influence of the researcher, embarrassing questions can be asked with a huge chance of getting a true reply. It is also advised

that the interviewers' errors such as errors from the recording of responses by interviewers and the interviewers' personal appearance, mood and conduct, which may influence the interview results, are eliminated (Burns 2000, p. 581).

Designing questionnaires on the other hand require a lot of time and skill to design and develop (Walliman 2011, p. 97). Lower response rates have been noted as one of the most damaging limitations of questionnaires and if the response rate is low, there is a huge risk of bias in the findings (Bryman & Bell, 2007, p. 243). On this study, risk of the lower response rate was improved by writing an informed consent letter to respondents explaining the reasons for the research and why it is important (Bryman & Bell, 2007, p. 243). It was also advised by Bryman and Bell (2007, p. 243) that if questionnaires are shorter, the researcher is more likely to get a better response rates compared to longer ones. Women in Rural Enterprise (2015) also concurred with other authors when they indicated that the questionnaires should be kept short as most people are generally busy and are more likely not to answer a long questionnaire than a short one. This is true with the questionnaire used in this research study because the questionnaire was short and easy to understand. The questionnaire was designed in a way that it did not appear to be bulky to encourage the questionnaire to appear more professional as was suggested by Bryman and Bell (2007, p. 243) as one of the steps to improve the response rates of questionnaires.

Cavana, Delahaye and Sekaran (2001, p.238) recommended that once a questionnaire is designed, and before it is used to gather the research data, a researcher should conduct pre-tests. There are different types of pre-tests that can be conducted and these include face validity, content validity and pilot study. For the purposes of this study, the questionnaire was pilot tested to determine the validity and reliability of the questions before it was sent to the sample respondents to complete. Seven questionnaires were distributed to different small businesses owners for the purposes of a pilot study. This is in line with what was said by Cavana *et al.* (2001, p.238) who stipulated "a questionnaire should be piloted with a reasonable sample of respondents who form part of the target population or closely resemble the target population". Cavana *et al.* (2001, p. 238) further advised business researchers to use a small number of research respondents for pilot study (in this case, seven respondents) so that there will be a large number of research participants for the actual research in question. Hair, Money, Samounel and Page (2007, p. 279) justified the use of seven



questionnaires in this research study for pre-testing when they highlighted that the sample for pre-testing include four or five individuals but not more than thirty.

The questionnaire consisted of five pages with four sections. Section A consisted of all the demographic details of respondents; Section B contained questions about the SME. Section C had all the questions that access the owner-managers' competencies and skill in managing their businesses. The last section had general questions that assisted in making relevant conclusions and recommendations for this study. Questionnaires can be personally administered, mailed or sent electronically and for the purposes of this study, the questionnaires were self-administered and some were sent to respondents electronically. Self-administered questionnaires provided an opportunity to the researcher to "introduce the research topic and motivate the respondents to give honest answers" and some respondents requested a copy of the completed research paper (Cavana *et al.* 2001, p. 239). Electronic questionnaires were easy to administer and helped the researcher to easily reach wide geographic locations quickly and inexpensively (Cavana *et al.* 2001, p. 244).

### **3.6 DATA ANALYSIS**

After the data was collected, the next step was to analyse the data, the reason being to make the collected raw data meaningful (Coldwell 2004, p. 92). Since this research study was quantitative in nature, data needed to be statistically analysed, expressed, presented and measured numerically (Ghauri *et al* 1995, p. 95). For the analysis of quantitative data, the computer software package, Statistical Package for the Social Sciences (IBM SPSS 22) was used and Quinlan (2011, p. 360) indicated that SPSS is a software package designed for quantitative data analysis and is a powerful tool used to analyse larger sets of data.

For this study, data was coded so that it could be broken down, conceptualized and put together and presented in an understandable manner (Ghauri *et al* 1995, p. 95). This was justified by Burns (2000, p. 586) who specified that data collected using questionnaires has to be put in categories in order to analyse it. Each response was then coded as a number and that numeric code was then loaded into SPSS. After the loading of all completed questionnaires into SPSS, the researcher analysed the data. It is important to note that all the data capturing was completed by the researcher and

while a statistician provided the results and a few comments to aid with the interpretation of the results, the research did most of the interpretation of the results.

Descriptive data analysis was used incorporating the use of tables and charts presenting data about the competency of PMB owner-managers (Guthrie 2010, p. 177). The Kruskal-Wallis test was used in this study and it was described by Pallant (2007, p. 226) as a “non-parametric alternative to a one-way between groups’ analysis of variance and it allows researchers to compare the variable scores of three or more groups”. The main pieces of information that are derived from the Kruskal-Wallis test are Chi-Square value, the degrees of freedom and the significance level (Pallant 2007, p. 227) Chi-Square (Fishers Exact Test) was used to statistically confirm whether or not the observed pattern was due to chance and to determine the relationship between variables (Sekaran & Bougie 2013, p. 289). The Chi-Square test results, to mention a few, showed that there were some significant association between position in the company and promotion of products and services, significant association between position in the company and dealing with customer complaints and significant difference in respondents’ age and marketing strategies of the organisation.

### **3.7 VALIDITY**

According to Cooper and Schindler (2001, p. 211) validity is “the extent to which differences that are found with a measuring tool reflect true differences among respondents that are being tested”. However, Zikmund (2003, p. 302) described validity as the measuring device’s ability to measure what it is intended to measure. Validity has three crucial distinct aspects and these are content validity, criterion validity and construct validity (Muijs 2011, p. 57). Criterion validity is “the extent to which a score on the questionnaire or test correlates with some desired outcome criteria” (Dunn 2010, p. 185). Gavin (2008, p. 16) said that construct validity is “the extent to which the scale measures the unobservable construct that it proposes to measure.” Content validity is “the extent to which the items for a certain measuring instrument fully represent the area of study without omissions” (Coldwell & Herbst 2004, p. 18). A measure is said to have a high content validity if it has a higher coverage degree of the full range of behaviour of the ability being measured (Clark-Carter 2010, p. 31).

Construct validity was used for the purposes of this study and this is because a thorough consideration was made for both the theory and the measuring instrument (Clark-Carter 2010, p. 31). The validity in this case was concerned with how well the questionnaire revealed information on what skills owner-managers of SMEs in Pietermaritzburg possessed. The questionnaire was piloted first in order to analyse if the respondents were able to answer the questions correctly and how some questions were interpreted. The importance of piloting or testing the questionnaire was emphasized by Hussey and Hussey (1997, p. 163) when they mentioned that by having colleagues, friends and people who know more about the subject to read through the questionnaire, they can spot some glaring errors before the questionnaire is distributed for data collection.

### **3.8 RELIABILITY**

With reference to Quinlan (2011, p. 42), reliability is the degree to which consistent results can be obtained when the research is repeated. This was endorsed by Sekaran (2003, p. 203) who described reliability as the “extent to which the measure used is without bias and guarantees consistent measurement over time and over various items to be measured”. Blumberg *et al.* (2005, p. 455) described reliability as a necessary contributor of validity although it is an insufficient condition for validity. The reliability of the study was measured to ensure that the data collected was correct, the method of collection was not compromised and that the questionnaires were consistent for all the respondents (Blumberg *et al.* 2005, p. 455). Guthrie (2010, p. 110) advised that there are two steps to increase reliability and these are the adaptation of systematic sampling techniques and recording the data carefully. However, Bryman and Bell (2003, p. 291) pointed out that sometimes it is difficult to achieve reliability due to factors like observer fatigue and lapses in attention and they further elaborated that this point should not be exaggerated.

A reliability coefficient that is used to measure positive correlation between items in a set to one another and is computed according to the average intercorrelations among the items measuring a concept is called a Cronbach’s alpha (Sekaran & Bougie 2013, p. 292-293). According to DeVellis (2003) in Pallant (2007, p. 95), an ideal Cronbach coefficient of the scale should be above 0.7 but it should be noted that Cronbach alpha values are quite sensitive to the number of items in the scale. The questionnaire used

for this study was analysed to determine its internal consistency and results showed that the reliability statistics for all the sections were reliable as the Cronbach's alpha was  $>0.7$ , thus the overall reliability for all the five skills was greater than 0.7 ( $\alpha = 0.948$ ,  $N = 33$ ). The Cronbach alpha of ( $\alpha = 0.948$ ,  $N=33$ ) concurs with what was highlighted by Sekaran and Bougie (2013, p. 293) "that the closer Cronbach's alpha is to 1, the higher the internal consistency reliability".

### **3.9 ASSUMPTIONS**

It was assumed that all the answers given by respondents were true and honest. It was also assumed that the respondents understood the questions and they could read and write. The other assumption was that the researcher was independent from what was being researched and was not biased.

### **3.10 ETHICAL CONCERNS**

Ethics are norms or standards of behaviour that guide moral choices about people's behaviour and their relationships with others. The goal of ethics in research is to ensure that "no one is harmed or suffers adverse consequences from research activities" (Cooper & Schindler, 2001, p.112 cited in Coldwell & Herbst 2004, p. 18). Teddlie and Tashakkori (2009, p. 198) endorsed this by advising researchers that as much as the main goal of conducting a research study is to discover answers that are credible to research questions, the answers are considered acceptable when the research participants' well-being are also taken into consideration. Coldwell and Herbst (2004, p. 19) further stipulated that it is the researcher's main responsibility to maintain respondents' privacy and anonymity. Researchers were also advised by Coldwell and Herbst (2004, p. 19) not to purposefully attempt to prove their particular viewpoint or "uphold a certain vested interest".

Ethical clearance (EC clearance number HSS/0258/013M) was granted by the Ethical Clearance Committee of University of KwaZulu-Natal for the purpose of this study and the code of ethics of the university was seriously adhered to before the commencement of research in the field and during the entire time of this research study. The autonomy of participants was protected through the use of an informed consent form and efforts were made to obtain informed permission for the research

from appropriate authorities. Teddlie and Tashakkori (2009, p. 199) defined an informed consent as a situation whereby by the research participant agrees to voluntarily partake in a research study with full knowledge of possible risks, if any, that may be involved and the details of the research project. Provisions related to the participants' right to privacy including issues of anonymity and confidentiality can also be included in consent forms (Teddlie & Tashakkori, 2009, p. 19).

The researcher also ensured that no information was accessed without prior consent of participants and participants were not required to commit an act or acts that diminished their self-respect or caused them to feel embarrassed, shameful or regretful. The questionnaire was designed in a way that the questions were neither stressful nor upsetting, nor were the procedures unpleasant or with harmful side effects. It was ensured that there was no form of deception during the collection of data.

### **3.11 CONCLUSION**

The main objective of this chapter was to provide the research methodology and design that was used to collect and analyse the collected data. A description of the aim and research objectives, strategies for collecting data, the research design, the procedures on sampling, methods for gathering data and data analysis methods were outlined in the beginning of this chapter.

Exploratory research design was used for this incorporating the use of quantitative research method. A questionnaire with closed ended questions was used to collect primary data. Before data collection, a pilot test was conducted in order to test for the validity and reliability of the questionnaire. The registered members of the Pietermaritzburg Chamber of Business (PCB) formed the sampling frame. An informed consent form was distributed together with the questionnaire so that the participants were aware of the fact that their participation in the study was voluntary and that their responses were to be kept anonymous. A computer software package called Statistical Package for Social Sciences (SPSS) version 22 was used to analyse the collected data and the following chapter presented of the results of collected data.

## CHAPTER 4

### RESULTS

#### 4.1 INTRODUCTION

This chapter's main objective was to present the results based on the data that was collected and analysed and the discussion of these results follows in Chapter 5. Self-administered questionnaires were used to collect quantitative data and the data was analysed using the Statistical Package for the Social Sciences (SPSS) version 22. The demographic information will be provided first and thereafter the results will be discussed under each research objective.

#### 4.2 LINKING RESEARCH OBJECTIVES AND INSTRUMENT

For this study, it was very critical to explain the link between the five research objectives and the research instrument (questionnaire and the questions) to ensure that the research objectives were achieved. These links are shown in Table 4.1. Research objective 2 was not measured in the questionnaire but a literature study was undertaken to meet this objective. Research objective 4 was answered based on the overall results of the study and the literature in terms of the required skills needed by entrepreneurs.

**Table 4.1 Link between the research questions and research instrument**

Research Questions (RQS)	Research Instrument
RQ 1: Which skills do owner-managers need to successfully start and manage a small business?	Questionnaire, All the questions in Section C
RQ 3: What kind of skills of owner-managers are available in the Pietermaritzburg area?	Questionnaire, Section C
RQ 5: What steps should be recommended to match the available skills to the required skills with the help of government, educational institutes and businesses?	Questionnaire, Section D, Questions 1 and 2.

### **4.3 DEMOGRAPHICAL INFORMATION**

Owner–managers of SMEs registered with the Pietermaritzburg Chamber of Business (PCB) were the targeted population for the study. According to the list provided by the PCB in November 2013, they had 716 registered members. Of the 716, some owner-managers are no longer actively involved in business as they are retired but are still registered members of PCB. Some owner-managers who were on the list provided by PCB are no longer members and some organisations have changed ownership and the current owners are not actively involved with PCB. Some organisations are members of the PCB but are just too big to be classified as small or medium enterprises. For the purposes of this study, the researcher emailed and physically distributed 260 questionnaires and 108 were completed by respondents. Therefore the overall response rate was 41.5 % ( $108/260 \times 100$ ). The low response rate does not mean that the results are not valuable and this was supported by Nolinske (1995, n.p) who highlighted that low results usually mean that the results cannot be generalised to other people or situations unless they are identical to those used in the study. There is no standardised formula for determining the adequate response rate and Bailey (1991) in Nolinske (1995, n.p) suggested that a 30% response rate is reasonable if respondents are interested in the study. It was also noted that the “response rate is not the best way to judge the ‘accuracy’ of the results of a study but the representativeness of respondents is” (Bright Ideas 2009, n.p).

#### **4.3.1 Section A: Demographic information**

The demographic details that were provided by respondents included gender, race and age group. They also provided their highest level of qualification completed and whether they were the owner, manager or partner in their respective business. This information is highlighted in the figures and tables below.

In this study, the respondents were predominately male making up 58% (n=63) and 41% (n=44) were female as shown in Figure 4.1.

**Figure 4.1 : Gender of respondents**

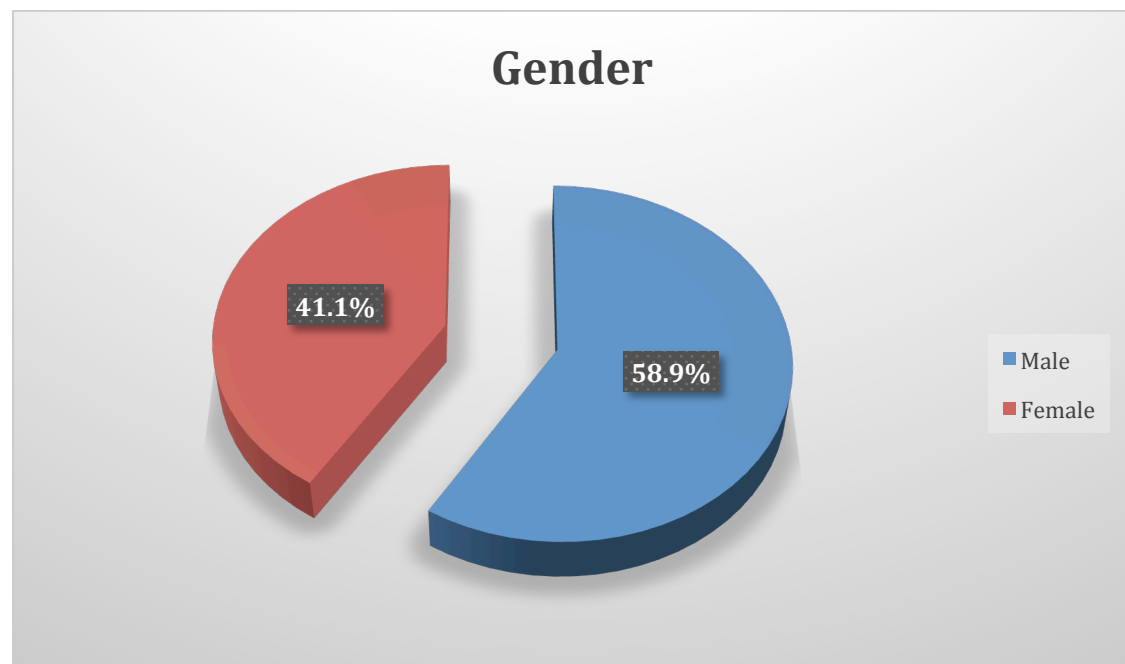


Table 4.2 indicated that of the 108 respondents 55.6% (n=60) were business owners, 10.2 % (n=11) were partners in the business and 30.6 % (n=33) were business managers. A total of 3.7 % (n=4) did not answer this question. Most of the respondents (86.2%) were business owners and business managers.

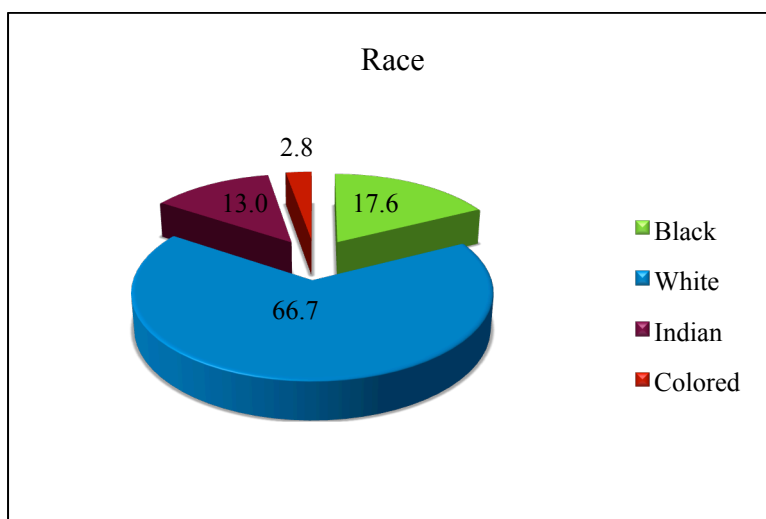
**Table 4.2: Are you the owner, partner or manager?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Owner	60	55.6	57.7	57.7
	Partner	11	10.2	10.6	68.3
	Manager	33	30.6	31.7	100.0
	Total	104	96.3	100.0	
Missing	System	4	3.7		
Total		108	100.0		

Of the 108 respondents, figure 4.2 below showed that most respondents were white accounting for 66.7% (n=72), 17.6% (n=19) were African, 13% (n=14) were Indian and the least were coloured who accounted for 2.8% (n=3) of the population.



**Figure 4.2: Race**



From Figure 4.3 there was a clear indication that the respondents were mostly middle aged and older than 33.3% (n=36) were between ages of 36 and 45, respondents between the ages of 46 and 55 made up 30.6% (n=33) of the population and 19.4 % (n=21) were 56 years and older. The second smallest group was those between the ages of 26 and 35 who constituted 15.7% (n=17). One respondent (0.9%) was a young adult between the ages of 18 to 25.

**Figure 4.3: Age**

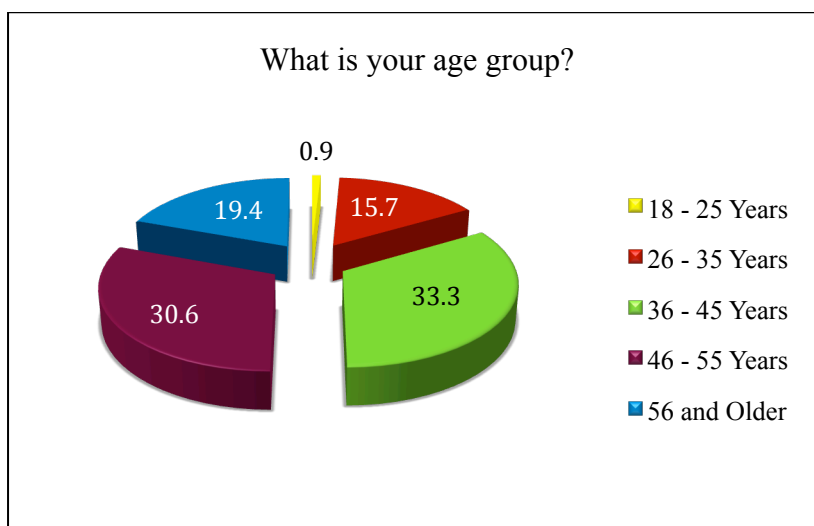


Table 4.3 portrays that only 2.8% (n=3) respondents didn't have a matric qualification. A total of 30.6% (n=33) respondents had their matric, 25% (n=27) completed their undergraduate degree, 29.6% (n=32) had their post graduate degree and 12% (n=13) were diploma holders.

**Table 4.3. Highest level of qualification completed**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Less than Matric	3	2.8	2.8	2.8
Matric	33	30.6	30.6	33.3
Undergraduate Degree	27	25.0	25.0	58.3
Post Graduate Degree	32	29.6	29.6	88.0
Diploma	13	12.0	12.0	100.0
Total	108	100.0	100.0	

#### 4.3.2 Section B: General organisation details

After the demographic details, respondents were asked to provide their general organisation details and this included their organisation's sector, number of employees in their organisation, and information regarding their registration status – if they were registered as either a sole proprietor, a partnership, close corporation or private corporation - were also obtained.

Table 4.4 illustrated that the top five sectors that were represented in the sample are as follows: retail (25%, n=27), tourism and hospitality (13.9%, n=15), the education sector and the construction sector accounted for 7.4% (n=8) each. This was followed by the manufacturing sector that totalled 6.5% (n=7) of the respondents. The training sector and the farming and agriculture sector added up to 4.6 % (n=5) each.

**Table 4.4: Your current organisation's sector**

Organisation Sector	Frequency	Percent	Valid Percent	Cumulative Percent
Information Technology	4	3.7	3.7	3.7
Transport	2	1.9	1.9	5.6
Education	8	7.4	7.4	13.0
Retail	27	25.0	25.0	38.0
Manufacturing	7	6.5	6.5	44.4
Construction	8	7.4	7.4	51.9
Tourism and Hospitality	15	13.9	13.9	65.7
Marketing & Advertising	4	3.7	3.7	69.4
Beauty & Wellness	1	.9	.9	70.4
Consulting & Project Management & Training	5	4.6	4.6	75.0
Accounting & Business Advisory Services	2	1.9	1.9	76.9
Farming & Agriculture	5	4.6	4.6	81.5
Motor Repairs	1	.9	.9	82.4
Finance	3	2.8	2.8	85.2
Health & Fitness	4	3.7	3.7	88.9
Life Coaching & Social Services	2	1.9	1.9	90.7
Industrial Electronics	1	.9	.9	91.7
NPO	1	.9	.9	92.6
Recruitment/HR	1	.9	.9	93.5
Ecological Consultant	1	.9	.9	94.4
Medical	1	.9	.9	95.4
Wood Processing	1	.9	.9	96.3
Legal	1	.9	.9	97.2
Real Estate	1	.9	.9	98.1
Call Centres	1	.9	.9	99.1
Hairdressing	1	.9	.9	100.0
Total	108	100.0	100.0	

Figure 4.4 highlighted that 52.8% (n=57) of organisations had a staff complement between 1-9 employees, followed by 10-30 employees (28.7%, n=31), and then more than 100 employees (7.4%, n=8). Organisations with 31-60 employees made up only 1.9% (n=2) of the respondents and 81-100 employees also made up 1.9% (n=2) respectively. These findings therefore shows that all the respondents used for the purposes of this study qualified as SMEs according to the definition given by South Africa National Small Business Act (No.102 of 1996) (SA, 1996).

**Figure 4.4: Number of employees in your organisation**

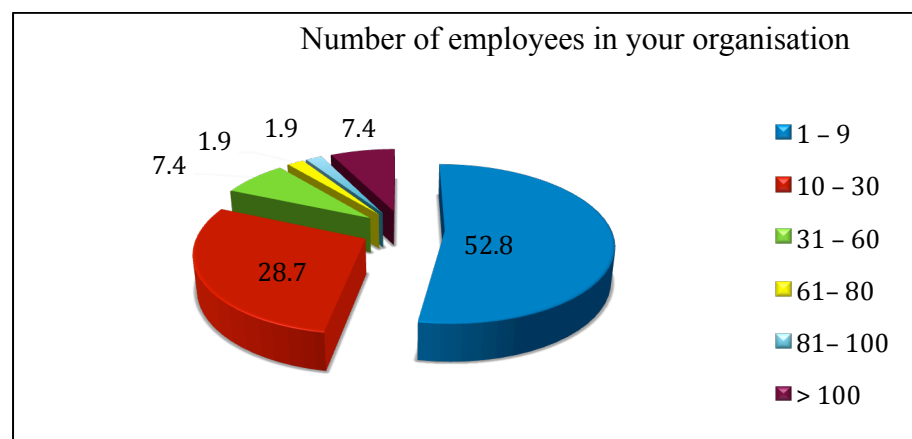
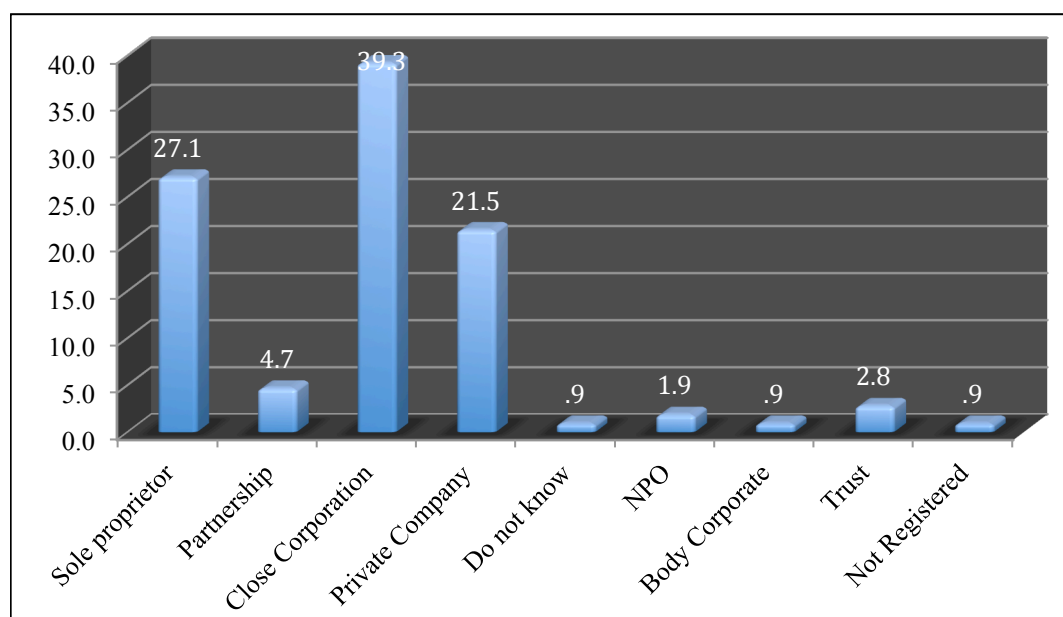


Figure 4.5 indicated that the majority of organisations were registered as a close corporation (39.3%, n = 42). This means that these organisations existed before 1 May 2008 when the Companies Act was amended after which no close corporations could be registered. This was followed by sole proprietors who totalled 27.1% (n=29). In addition, 21.5% (n=23) were registered as private companies and 4.7% (n=5) were registered as partnerships. Organisations registered as trusts were 2.8% (n=3) with nonprofit organisations adding up to 1.9% (n=2). One respondent (0.9%) was registered as a body corporate, one (0.9%) didn't know what they were registered as and one (0.9%) was not registered.

**Figure 4.5: Are you registered as a:**



Thus, the study findings revealed that:

- Most respondents were predominately males 58% (n=63) with 41% females (n=44) and a greater number of respondents 55.6% (n=60) were business owners.
- The highest frequency race group was white (66.7%, n=72) followed by the African group (17.6%, n=19).
- Most respondents were between the ages of 36-45 years (33.3%, n=36), closely followed by respondents between the ages of 46-55 years (30.6%, n=33).
- The majority of respondents had completed their matric (30.6%, n=33), 29.6% (n=32) had their post graduate degree and a quarter of participants 25% (n=27) had an undergraduate degree.
- The largest number of respondents (25%, n=27) were employed in the retail sector, followed by those in the tourism and hospitality sector who added up to 13.9% (n=15), then education (6.5%, n=7) and the construction sector 6.5% (n=7) respectively.
- 52.8% (n=57) of the respondents had 1 to 9 employees in their organisation but surprisingly most of the companies were registered as a close cooperation, totally 39.3 % (n=42) of the respondents.
- Of the 108 respondents, 9.3% (n=10) organisations had been in business for 10 years and only one organisation was less than a year old.

#### **4.3.3 Section C: Skills**

The results of the study based on the questionnaire will be discussed in terms of research objective 1, 3 and 5.

##### **4.3.3.1. Accounting, finance and book-keeping skills**

It appears from the table 4.5 that most respondents have some competency or are fully competent to prepare an income statement. However, out of the 108 respondents, 30 highlighted that they had no competency or are inadequately competent to prepare an income statement.

**Table 4.5. Preparing an income statement**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No competency	14	13.0	13.0	13.0
Inadequate competency	16	14.8	14.8	27.8
Some competency	42	38.9	38.9	66.7
Fully competent	36	33.3	33.3	100.0
Total	108	100.0	100.0	

Even though the results showed that most respondents had some level of competency, in table 4.6 below, it showed that difference was significant between the type of company registration and the ability to prepare an income statement ( $p_r = 37.607$ ,  $n = 107$ ,  $p = 0.003$ ).

**Table 4.6: Difference between type of company registration and competency to prepare an income statement**

		C1. Preparing income statement				Total
		No competency	Inadequate competency	Some competency	Fully competent	
B3. Are you registered as a	Sole proprietor	8	7	12	2	29
	Partnership	1	1	2	1	5
	Close Corporation	4	2	19	17	42
	Private Company	1	4	6	12	23
	Do not know	0	0	0	1	1
	NPO	0	0	1	1	2
	Body Corporate	0	0	1	0	1
	Trust	0	1	0	2	3
	Not Registered	0	1	0	0	1
	Total	14	16	41	36	107

Looking at table 4.6, it appeared that sole proprietors, and partnerships had more non-to inadequate competencies when it came to preparing an income statement, whereas close corporations and private companies had some to full competencies.

Table 4.7 below showed that a total of 36 respondents had no competency or are inadequately competent to prepare a balance sheet. Less than half (32%) of the respondents agreed that they were fully competent to prepare a balance sheet and 34% of the respondents said that they had the knowledge and skill (some competency) to prepare a balance sheet.

**Table 4.7: Preparing a balance sheet**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No competency	16	14.8	14.8	14.8
Inadequate competency	20	18.5	18.5	33.3
Some competency	37	34.3	34.3	67.6
Fully competent	35	32.4	32.4	100.0
Total	108	100.0	100.0	

The table 4.8 below showed that there was a significant difference in the type of registration and the ability to prepare a balance sheet ( $p_r = 37.673$ ,  $n = 107$ ,  $p = 0.002$ ). It can be concluded that sole proprietors, and partnerships had more non- to inadequate competencies when it came to preparing a balance sheet, whereas close corporations and private companies had more some to full competencies.

**Table 4.8 Difference in the type of company registration and ability to prepare a balance sheet**

		C2. Preparing balance sheet				Total
		No competency	Inadequate competency	Some competency	Fully competent	
B3. Are you registered as a	Sole proprietor	10	7	9	3	29
	Partnership	2	1	1	1	5
	Close Corporation	4	5	16	17	42
	Private Company	0	4	8	11	23
	Do not know	0	0	0	1	1
	NPO	0	0	2	0	2
	Body	0	1	0	0	1
	Corporate Trust	0	1	0	2	3
	Not Registered	0	1	0	0	1
	Total	16	20	36	35	107

From the table 4.9 provided below, almost half (49%) of the respondents were fully competent to analyse income and expenditure, while 34% said that they possessed some competency to analyse income and expenditure. A total of 17% (n=18) of the respondents indicated that they were either not competent or inadequately competent.

**Table 4.9: Analysing income and expenditure**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No competency	10	9.3	9.3	9.3
Inadequate competency	8	7.4	7.4	16.7
Some competency	37	34.3	34.3	50.9
Fully competent	53	49.1	49.1	100.0
Total	108	100.0	100.0	

Only 11 % of the respondents had no competency to prepare and interpret monthly, quarterly or yearly reports. A total of 13% (n=14) agreed that they were inadequately competent to prepare and interpret monthly, quarterly or yearly reports. Out of the 108 respondents, 36 (33%) had some competency to prepare and interpret monthly, quarterly or yearly reports, while more of the respondents (42%, n=45) revealed that they were fully competent to prepare and interpret monthly, quarterly or yearly reports. One respondent did not answer this question and this is portrayed in the table 4.10 below.

**Table 4.10: Preparation and interpretation of monthly, quarterly or yearly financial reports**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No competency	12	11.1	11.2	11.2
Inadequate competency	14	13.0	13.1	24.3
Some competency	36	33.3	33.6	57.9
Fully competent	45	41.7	42.1	100.0
Total	107	99.1	100.0	
Missing System	1	.9		
Total	108	100.0		



From the table 4.11 below, the findings revealed that sole proprietors had inadequate competency skills compared to close corporations and private companies when it came to the preparation and interpretation of monthly, quarterly or yearly financial reports. It was further revealed that there was a significant difference in the type of registration and the ability to prepare and interpret monthly, quarterly or yearly financial reports ( $p_r = 42.772$ ,  $n = 106$ ,  $p < 0.0001$ ).

**Table 4.11 Difference between the type of company registration and ability to prepare and interpret monthly, quarterly or yearly financial reports**

		C4. Preparation and interpretation of monthly, quarterly or yearly financial reports				Total
		No competency	Inadequate competency	Some competency	Fully competent	
B3. Are you registered as a	Sole proprietor	9	6	11	3	29
	Partnership	1	0	3	1	5
	Close Corporation	2	4	15	21	42
	Private Company	0	3	3	16	22
	Do not know	0	0	0	1	1
	NPO	0	0	1	1	2
	Body Corporate	0	0	1	0	1
	Trust	0	0	1	2	3
	Not Registered	0	0	1	0	1
Total		12	13	36	45	106

When respondents were asked on how knowledgeable they were about the tax legislation including VAT, PAYE and UIF, 12% (n=13) admitted to not being competent, a large number of 26 (24%) respondents showed that they had inadequate competency, 32% (n=35) of the respondents had some competency and another 32% were fully competent with the knowledge on tax legislation including VAT, PAYE and UIF.

**Table 4.12: Knowledge on tax legislation including VAT, PAYE, UIF, etc.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No competency	13	12.0	12.0	12.0
Inadequate competency	26	24.1	24.1	36.1
Some competency	35	32.4	32.4	68.5
Fully competent	34	31.5	31.5	100.0
Total	108	100.0	100.0	

From the data collected for the purposes of this study, it was also identified that there was a significant difference in the type of company registration and possessing the knowledge on tax legislation including VAT, PAYE, UIF, etc. ( $p_r = 39.875$ ,  $n = 107$ ,  $p = 0.001$ ). This was clearly highlighted in the table 4.13 provided below.

**Table 4.13: Difference in the type of company registration and knowledge on tax legislation including VAT, PAYE, UIF, etc.**

		C5. Knowledge on tax legislation including VAT, PAYE, UIF etc.				Total
		No competency	Inadequate competency	Some competency	Fully competent	
B3. Are you registered as a	Sole proprietor	10	10	5	4	29
	Partnership	1	2	1	1	5
	Close Corporation	2	7	15	18	42
	Private Company	0	3	10	10	23
	Do not know	0	0	1	0	1
	NPO	0	0	2	0	2
	Body	0	1	0	0	1
	Corporate Trust	0	1	1	1	3
	Not Registered	0	1	0	0	1
Total		13	25	35	34	107

As much as many respondents agreed to having some competency and being fully competent, the results showed that sole proprietors had more non to inadequate competency skills compared to close corporations and private companies when it comes to knowledge on tax legislation including VAT, PAYE, UIF, etc.

Overall, the data collected showed some significant competency for accounting, finance and bookkeeping skills. Provided in the table 4.14 below, it appears that most

respondents strongly disagreed that they could prepare an income statement and balance sheet. Most respondents strongly agreed that they could analyse income and expenditure and they also strongly agreed that they could prepare and interpret monthly, quarterly and yearly financial reports. The results below also highlight that most respondents strongly disagreed that they had knowledge on tax legislation including VAT, PAYE and UIF.

**Table 4.14 Statistics of accounting, finance and bookkeeping skills**

	N	Mean	Std. Deviation	Std. Error Mean
Q1.1 Preparing income statement	108	2.93	1.002	.096
Q1.2 Preparing balance sheet	108	2.84	1.043	.100
Q1.3 Analysing income and expenditure	108	3.23	.943	.091
Q1.4. Preparation and interpretation of monthly, quarterly or yearly financial reports	107	3.07	1.003	.097
Q1.5. Knowledge on tax legislation including VAT, PAYE, UIF etc.	108	2.83	1.009	.097

*Note:  $p < .005$  for all values*

There was a significant difference in the respondents' position held, and having the ability to prepare and interpret monthly, quarterly or yearly financial reports ( $H(2) = 7.144$ ,  $p = 0.028$ ). There was a significant difference in the highest level of qualification completed and preparing an income statement ( $H(4) = 10.402$ ,  $p = 0.034$ ).

With regards to accounting, finance and bookkeeping skills, a significant difference in type of company registration and ability to prepare an income statement ( $H(8) = 21.937$ ,  $p = 0.005$ ); preparing a balance sheet ( $H(8) = 23.200$ ,  $p = 0.003$ ); analysing income and expenditure ( $H(8) = 28.714$ ,  $p < 0.0001$ ); preparation and interpretation of monthly, quarterly or yearly financial reports ( $H(8) = 29.583$ ,  $p < 0.0001$ ); knowledge on tax legislation including VAT, PAYE, UIF etc. ( $H(8) = 25.221$ ,  $p = 0.001$ ) was noted.

#### 4.3.3.2 Management skills

From table 4.15 below, 1 respondent had no current competency to evaluate competing priorities in order to plan ahead. Only 2.8% (n=3) of the respondents had inadequate competency while most respondents 41% (n=44) had some competency. A larger percentage (56%, n=60) of respondents agreed that they were fully competent to evaluate competing priorities and plan ahead.

**Table 4.15: Evaluating competing priorities in order to plan ahead**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No current competency	1	.9	.9	.9
Inadequate competency	3	2.8	2.8	3.7
Some competency	44	40.7	40.7	44.4
Fully competent	60	55.6	55.6	100.0
Total	108	100.0	100.0	

Most respondents 65% (n=70) were fully competent to encourage and motivate others while 31% of the respondents had some competency. Only a few (5%, n=5) had none to inadequate competency to encourage and motivate others.

**Table 4.16: Ability to encourage and motivate others**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No current competency	3	2.8	2.8	2.8
Inadequate competency	2	1.9	1.9	4.6
Some competency	33	30.6	30.6	35.2
Fully competent	70	64.8	64.8	100.0
Total	108	100.0	100.0	

It appears that a larger amount of respondents (71%) were fully competent in their ability to supervise and direct the work of others. A total of 21% said that they had some competency while a few (n=5) people felt that they were inadequately competent to supervise or direct work of others. A very small (n=2) number of respondents indicated that they had no current competency and one respondent did not answer the question.

**Table 4.17: Ability to supervise or direct work of others**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No current competency	2	1.9	1.9	1.9
	Inadequate competency	5	4.6	4.7	6.5
	Some competency	23	21.3	21.5	28.0
	Fully competent	77	71.3	72.0	100.0
	Total	107	99.1	100.0	
Missing	System	1	.9		
Total		108	100.0		

Even though most respondents agreed to being fully competent in their ability to supervise and direct the work of others, it was noted that there was a significant difference in the respondents' age and having the ability to encourage and motivate others ( $H(4) = 9.683, p = 0.046$ ).

Table 4.18 below depicted that 5% ( $n=5$ ) of the respondents had inadequate competency, 32% ( $n=35$ ) were somehow competent and a larger number (63%,  $n=68$ ) of participants were fully competent in their ability to manage time.

**Table 4.18: Ability to manage time**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Inadequate competency	5	4.6	4.6	4.6
	Some competency	35	32.4	32.4	37.0
	Fully competent	68	63.0	63.0	100.0
	Total	108	100.0	100.0	

More than half the respondents (61%,  $n=66$ ) indicated that they were fully competent in their ability to delegate managerial tasks. A total of 29% of the research participants acknowledged that they had some competency, 6%, ( $n=6$ ) were inadequately competent and 3 respondents had no current competency to delegate managerial tasks

**Table 4.19: Ability to delegate managerial tasks**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No current competency	3	2.8	2.8	2.8
	Inadequate competency	6	5.6	5.7	8.5
	Some competency	31	28.7	29.2	37.7
	Fully competent	66	61.1	62.3	100.0
	Total	106	98.1	100.0	
Missing	System	2	1.9		
Total		108	100.0		

The table 4.20 below showed that only one respondent said that they had no current competency to assess the strength, weakness, opportunities and threats of their business. Only three respondents had no adequate competency while 40% (n=43) felt that they had some competency and most respondents (57%, n=61) were fully competent in their ability to assess the strength, weakness, opportunities and threats of their business. A total of two respondents did not provide an answer to this question.

**Table 4.20: Ability to assess the Strength, Weakness, Opportunities and Threats (SWOT) of your business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No current competency	1	.9	.9	.9
	Inadequate competency	3	2.8	2.8	3.7
	Some competency	43	39.8	39.8	43.5
	Fully competent	61	56.5	56.5	100.0
	Total	108	100.0	100.0	

When asked about their awareness of their competitive advantage over competitors, over half (55%, n=59) of the respondents agreed that they were fully competent, 38% had some competency, 6% had inadequate competency and one respondent answered that they had no current competency. One participant did not answer the question.

**Table 4.21: Awareness of competitive advantage over competitors**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No current competency	1	.9	.9	.9
	Inadequate competency	6	5.6	5.6	6.5
	Some competency	41	38.0	38.3	44.9
	Fully competent	59	54.6	55.1	100.0
	Total	107	99.1	100.0	
Missing	System	1	.9		
Total		108	100.0		

It appears that a large number of respondents (69%, n=74) were fully competent, 27% shown some competency, 4% were inadequately competent and 1% (n=1) was not competent in their ability to set down a sequence of activities.

**Table 4.22: Ability to set down a sequence of managerial activities**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No current competency	1	.9	.9	.9
	Inadequate competency	4	3.7	3.7	4.6
	Some competency	29	26.9	26.9	31.5
	Fully competent	74	68.5	68.5	100.0
	Total	108	100.0	100.0	

Of the 108 respondents, 2% had no current competency, 5% had inadequate competency, 28% (n=30) had some competency and 66% (n=71) indicated that they were fully competent to effectively solve their organisational problems.

**Table 4.23: Ability to solve organisational problems**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No current competency	2	1.9	1.9	1.9
Inadequate competency	5	4.6	4.6	6.5
Some competency	30	27.8	27.8	34.3
Fully competent	71	65.7	65.7	100.0
Total	108	100.0	100.0	

The table 4.23 above reveals that most respondents were fully competent to efficiently solve organisational problems, however the results also showed that there was a significant difference in respondents' age and ability to solve organisational problems ( $p_r = 20.697$ ,  $n = 108$ ,  $p = 0.026$ ).

Looking at, table 4.24 on the next page, it was therefore finalised that the older people (over 56 years) had no current competency in the ability to solve organisational problems.

**Table 4.24: Difference between age and ability to solve organisational problems**

		D9. Ability to solve organisational problems				Total
		No current competency	Inadequate competency	Some competency	Fully competent	
A4.What is your age group?	18 - 25 Years	0	0	1	0	1
	26 - 35 Years	0	2	8	7	17
	36 - 45 Years	0	3	7	26	36
	46 - 55 Years	0	0	8	25	33
	56 and Older	2	0	6	13	21
Total		2	5	30	71	108

The mean and the standard deviation of each of the nine questions about the management skills of PMB owner-managers were provided below in table 4.25. The



table 4.25 portrayed that the higher number (mean greater than 3) implied that the respondents agreed or strongly agreed with the statement. While on the other hand, a low number (mean less than 3) indicated the respondents disagreed with the statement. Therefore table 4.24 below advocated that most respondents agreed and strongly agreed to having the competency to efficiently evaluate competing priorities in order to plan ahead, ability to supervise or direct the work of others, ability to manage time, ability to delegate managerial tasks, ability to access the Strength, Weakness, Opportunities and Threats (SWOT) of their businesses, awareness of competitive advantage over competitors, ability to set down sequence of activities and ability to solve organisational problems.

**Table 4.25: Statistics for management skills**

	N	Mean	Std. Deviation	Std. Error Mean
Q2.1. Evaluating competing priorities in order to plan ahead	108	3.51	.604	.058
Q2.2 Ability to encourage and motivate others	108	3.57	.673	.065
Q2.3 Ability to supervise or direct work of others	107	3.64	.664	.064
Q2.4 Ability to manage time	108	3.58	.582	.056
Q2.5 Ability to delegate managerial tasks	106	3.51	.733	.071
Q2.6 Ability to access the Strength, Weakness, Opportunities and Threats (SWOT) of your business	108	3.52	.603	.058
Q2.7 Awareness of competitive advantage over competitors	107	3.48	.649	.063
Q2.8 Ability to set down a sequence of activities	108	3.63	.605	.058
Q2.9 Ability to solve organisational problems	108	3.57	.673	.065

*Note:  $p < .005$  for all values.*

All the statements above had a mean varying from 3.48 to 3.64 and it can be concluded that the respondents strongly agreed with the statements.

#### 4.3.3.3 Marketing skills

The results from table 4.26 below highlighted that 3% (n=3) of respondents had no current competency in the knowledge on advertising their products and services. A total of 13% of the respondents had inadequate competency, 35% (n=38) had some competency and 48% (n=52) were fully competent with the knowledge on advertising their products and services. One respondent did not provide an answer to this question.

**Table 4.26: Knowledge on advertising your products and services**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No current competency	3	2.8	2.8	2.8
	Inadequate competency	14	13.0	13.1	15.9
	Some competency	38	35.2	35.5	51.4
	Fully competent	52	48.1	48.6	100.0
	Total	107	99.1	100.0	
Missing	System	1	.9		
Total		108	100.0		

More than half (51%, n=55) of the respondents were fully competent to revise the pricing of their products and services. A total of 39% (n=42) agreed that they had some competency, 8% of respondents felt that they were not adequately competent and 2% (n=2) established that they had no current competency on revising the pricing of their products and services.

**Table 4.27: Revising of pricing of your products and services**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No current competency	2	1.9	1.9	1.9
	Inadequate competency	9	8.3	8.3	10.2
	Some competency	42	38.9	38.9	49.1
	Fully competent	55	50.9	50.9	100.0
	Total	108	100.0	100.0	

When asked if respondents had competency in the promotion of their products and services, 2% agreed that they had no current competency, 9% (n=10) highlighted that

they had inadequate competency, a larger number of respondents (46%, n=50) agreed to having some competency. A total of 43% said that they were fully competent to promote their products and services.

**Table 4.28: Promoting of your products and services**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No current competency	2	1.9	1.9	1.9
Inadequate competency	10	9.3	9.3	11.1
Some competency	50	46.3	46.3	57.4
Fully competent	46	42.6	42.6	100.0
Total	108	100.0	100.0	

The results of the respondents' ability to promote their products and services showed that the association between the position in the company and promoting their products and services was significant ( $p_r = 13.139$ ,  $n = 104$ ,  $p < 0.022$ ). It was therefore established that owners and partners are the only ones that had no, or inadequate competency. Looking at the table 4.29 below:

**Table 4.29: Difference between the position held in the company and ability to promote products and services**

		E3. Promoting of your products and services				Total
		No current competency	Inadequate competency	Some competency	Fully competent	
A2.Are you the	Owner	1	8	27	24	60
	Partner	0	2	8	1	11
	Manager	0	0	15	18	33
Total		1	10	50	43	104

Most owner-managers (44%, n=48) agreed to possessing some competency in their ability to selecting distribution channels that are appropriate for their products and services. A total of 43% were fully competent, 8% had inadequate competency and 2% highlighted that they had no current competency. Three respondents did not provide an answer to this question.

**Table 4.30: Selecting distribution channels appropriate for your products and services**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No current competency	2	1.9	1.9	1.9
	Inadequate competency	9	8.3	8.6	10.5
	Some competency	48	44.4	45.7	56.2
	Fully competent	46	42.6	43.8	100.0
	Total	105	97.2	100.0	
Missing	System	3	2.8		
Total		108	100.0		

More than half (54%, n=58) of respondents agreed that they were fully competent to effectively evaluate their customers' satisfaction. A total of 34% said that they had some competency, while 11% admitted to being inadequately competent and one respondent had no current competency.

**Table 4.31: Evaluating customer satisfaction**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No current competency	1	.9	.9	.9
	Inadequate competency	12	11.1	11.1	12.0
	Some competency	37	34.3	34.3	46.3
	Fully competent	58	53.7	53.7	100.0
	Total	108	100.0	100.0	

When asked how competent they were in dealing with customer complaints, 7% (n=7) said that they had no current competency to inadequate current competency, 27% said that they had some competency and a larger number (67%, n=72) of respondents acknowledged that they were fully competent.

**Table 4.32: Dealing with customer complaints**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No current competency	1	.9	.9	.9
Inadequate competency	6	5.6	5.6	6.5
Some competency	29	26.9	26.9	33.3
Fully competent	72	66.7	66.7	100.0
Total	108	100.0	100.0	

Looking at the table 4.33 below a settlement was made that there was a significant association between position in the company and dealing with customer complaints. It seemed that owners and managers tend to have some degree of lack of competency when it comes to dealing with customer complaints. While on the other hand, partners either had some competency or were fully competent.

**Table 4.33: Difference between position held in the company and ability to deal with customer complaints**

		E6. Dealing with customer complaints			Total
		Inadequate competency	Some competency	Fully competent	
A2.Are you the	Owner	5	11	44	60
	Partner	0	7	4	11
	Manager	1	11	21	33
Total		6	29	69	104

In table 4.34, 2% of the respondents showed that they had no current competency, 10% were inadequately competent, while 50% had some competency and 38% were fully competent to deal with the marketing strategies of their organisations.

**Table 4.34: Marketing strategies of the organisation**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No current competency	2	1.9	1.9	1.9
Inadequate competency	11	10.2	10.2	12.0
Some competency	54	50.0	50.0	62.0
Fully competent	41	38.0	38.0	100.0
Total	108	100.0	100.0	

Despite having more respondents saying that they had some competency to fully competent, it was noted there was a significant difference in respondents' age and marketing strategies of the organisation ( $p_r = 20.266$ ,  $n = 108$ ,  $p = 0.035$ ). The table 4.35 below highlighted that older people seemed to having no competency or inadequate competency when it comes to marketing strategies.

**Table 4.35: Difference between age and knowledge of marketing strategies of the organisation**

		E7. Marketing strategies of the organisation				Total
		No current competency	Inadequate competency	Some competency	Fully competent	
A4.What is your age group?	18 - 25 Years	0	0	0	1	1
	26 - 35 Years	0	4	11	2	17
	36 - 45 Years	0	5	17	14	36
	46 - 55 Years	0	1	15	17	33
	56 and Older	2	1	11	7	21
Total		2	11	54	41	108

When it came to the owner-managers' ability to generate new ideas, 1% indicated that they were not competent, 6% said that they had inadequate competency with 40% answered that they had some competency and 54% were confident that they were fully competent.

**Table 4.36: Ability to generate new ideas**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No current competency	1	.9	.9	.9
Inadequate competency	6	5.6	5.6	6.5
Some competency	43	39.8	39.8	46.3
Fully competent	58	53.7	53.7	100.0
Total	108	100.0	100.0	

In terms of the respondents' ability to efficiently respond to customer requests and use sensitivity and discretion when dealing with customers (table 4.37), 1% disagreed that they were competent and 3% had inadequate competency. The majority (66%, n=71) of the respondents strongly agreed that they were fully competent while 31% specified that they possessed some competency.

**Table 4.37: Ability to efficiently respond to customer requests and use sensitivity and discretion when dealing with customers**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No current competency	1	.9	.9	.9
Inadequate competency	3	2.8	2.8	3.7
Some competency	33	30.6	30.6	34.3
Fully competent	71	65.7	65.7	100.0
Total	108	100.0	100.0	

A reasonable number (16%, n=17) of respondents acknowledged to not having current competency or to having inadequate competency of all the relevant legislation that affects their business. A total of 36% indicated that they were somehow competent and full competency was prevalent in 48% of the respondents.

**Table 4.38: Good knowledge of relevant legislation that affects your business**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No current competency	2	1.9	1.9	1.9
Inadequate competency	15	13.9	13.9	15.7
Some competency	39	36.1	36.1	51.9
Fully competent	52	48.1	48.1	100.0
Total	108	100.0	100.0	

Regardless of the majority of respondents being somewhat competent to being fully competent, in terms of good knowledge of relevant legislation that affects their business, the findings in table 4.39 below revealed that there was a significant difference in the highest level of qualifications completed and possessing good knowledge of relevant legislation that affects their businesses ( $p_r = 23.196$ ,  $n = 108$ ,  $p = 0.008$ ).

**Table 4.39: Difference between level of education and good knowledge of relevant legislation that affect businesses**

		E10. Good knowledge of relevant legislation that affects your business				Total
		No current competency	Inadequate competency	Some competency	Fully competent	
A5.Highest level of qualification completed	Less than Matric	1	2	0	0	3
	Matric	0	6	8	19	33
	Undergraduate	0	2	10	15	27
	Degree	0	5	13	14	32
	Post Graduate	0	5	13	14	32
	Degree Diploma	1	0	8	4	13
Total		2	15	39	52	108

The crosstab above (table 4.39) suggested that people with a matric or less have fewer competencies when it comes to knowing relevant legislation that affects their business. The findings of this study also indicated that there was a significant difference in the respondents' position held, and having good knowledge of relevant legislation that affects their businesses ( $H(2) = 7.582$ ,  $p = 0.023$ ).



With regards to the owner-managers acknowledgement of the relevant legislation that affects that business, the results also revealed that there was a significant difference in the type of company registration and possessing the knowledge of relevant legislation that affects their business ( $p_r = 36.796$ ,  $n = 107$ ,  $p = 0.041$ ). Observing the table 4.40 below, it appeared that sole proprietors have less competency skills compared to close corporations and private companies when it comes to knowledge of relevant legislation that affects their businesses.

**Table 4.40: Difference between company registration and good knowledge of relevant legislation that affects your businesses**

		E10. Good knowledge of relevant legislation that affects your business				Total
		No current competency	Inadequate competency	Some competency	Fully competent	
B3. Are you registered as a	Sole proprietor	2	9	9	9	29
	Partnership	0	0	3	2	5
	Close Corporation	0	3	14	25	42
	Private Company	0	2	7	14	23
	Do not know	0	0	0	1	1
	NPO	0	0	2	0	2
	Body Corporate	0	0	0	1	1
	Trust	0	0	3	0	3
	Not Registered	0	0	1	0	1
	Total	2	14	39	52	107

Table 4.41 below showed that most respondents agreed that they were competent and fully competent with regards to marketing skills. A higher mean of 3.61 was noted for the respondents' ability to efficiently respond to customer requests and use sensitivity and discretion when dealing with customers. This was closely followed by a mean of 3.59 for the research participants' ability to deal with customer complaints and a mean of 3.46 for their competency to generate new ideas. With regards to the respondents' ability to evaluating customer satisfaction, a mean of 3.41 was highlighted and a mean of 3.39 for the respondents' ability to revise the price of their products and services was achieved. Most respondents agreed or strongly agreed that they were competent to select distribution channels that are appropriate for their products and services and knowledgeable about the relevant legislation that affects their business with a mean of 3.31 for each respectively. A lower mean of 3.30 was recorded with regards to respondents' knowledge on advertising of their products and services.

**Table 4.41: Statistics for marketing skills**

	N	Mean	Std. Deviation	Std. Error Mean
Q3.1 Knowledge on advertising your products and services	107	3.30	.803	.078
Q3.2 Revising of pricing of your products and services	108	3.39	.721	.069
Q3.3 Promoting of your products and services	108	3.30	.714	.069
Q3.4 Selecting distribution channels appropriate for your products and services	105	3.31	.711	.069
Q3.5 Evaluating customer satisfaction	108	3.41	.724	.070
Q3.6 Dealing with customer complaints	108	3.59	.642	.062
Q3.7 Marketing strategies of the organisation	108	3.24	.709	.068
Q3.8 Ability to generate new ideas	108	3.46	.647	.062
Q3.9 Ability to efficiently respond to customer requests and use sensitivity and discretion when dealing with customers	108	3.61	.593	.057
Q3.10 Good knowledge of relevant legislation that affects your business	108	3.31	.779	.075

**4.3.3.4 Technological skills**

When respondents were asked about their ability to create, store and retrieve files from the computer, most (73%, n=79) of the respondents confidently said that they were fully competent, 19% (n=20) were somehow competent and 6% (n=6) were inadequately competent. One respondent answered that they had no current competency.

**Table 4.42: Ability to create, store and retrieve files from the computer**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No current competency	1	.9	.9	.9
	Inadequate competency	6	5.6	5.7	6.6
	Some competency	20	18.5	18.9	25.5
	Fully competent	79	73.1	74.5	100.0
	Total	106	98.1	100.0	
Missing	System	2	1.9		
Total		108	100.0		

Respondents were also asked about their ability to use a word processing package to produce a variety of formats of documents. A total of 12% (n=13) of respondents highlighted that they had none to inadequate competency, 21% (n=23) had some competency and most (67%, n=72) of the respondents indicated having full competency in table 4.43 provided below.

**Table 4.43: Ability to use word processing package to produce a variety of formats of documents**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No current competency	1	.9	.9	.9
	Inadequate competency	12	11.1	11.1	12.0
	Some competency	23	21.3	21.3	33.3
	Fully competent	72	66.7	66.7	100.0
	Total	108	100.0	100.0	

In table 4.44, a relatively high number of respondents (89%, n=96) acknowledged to being fully competent to send and receive e-mails, 5% said that they were inadequately competent and 6 % had some competency.

**Table 4.44: Ability to send and receive e-mails**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Inadequate competency	5	4.6	4.7	4.7
Some competency	6	5.6	5.6	10.3
Fully competent	96	88.9	89.7	100.0
Total	107	99.1	100.0	
Missing System	1	.9		
Total	108	100.0		

With regards to the participants' ability to use search engines like Google, a very small number (3%, n=3) of respondents revealed that they were inadequately competent in table 4.45, 11% said that they had somewhat competency and the majority of respondents (86%, n=93) positively admitted that they were fully competent.

**Table 4.45: Ability to use search engine, for example Google**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Inadequate competency	3	2.8	2.8	2.8
Some competency	12	11.1	11.1	13.9
Fully competent	93	86.1	86.1	100.0
Total	108	100.0	100.0	

Table 4.46 below showed that most respondents agreed to full competency with regards to technological skills. A higher mean of 3.85 is noted for the responsibility to send and receive email and closely followed with a mean of 3.83 for the participants' ability to use search engines like Google. The respondents' ability to use a processing package of Word in order to generate documents in a variety of formats had a mean of 3.54 and a mean of 3.67 for the ability to create, store and retrieve files from the computer.

**Table 4.46: Statistics for technological skills**

	N	Mean	Std. Deviation	Std. Error Mean
Q. 4.1 Ability to create, store and retrieve files from the computer	106	3.67	.628	.061
Q 4.2 Ability to use word processing package to produce a variety of formats of documents	108	3.54	.729	.070
Q 4.3 Ability to send and receive e-mail	107	3.85	.472	.046
Q 4.4 Ability to use search engine, for example, Google	108	3.83	.443	.043

*Note:  $p < .005$  for all values*

#### 4.3.3.5. Communication skills

Table 4.47 below indicated that a larger percentage of respondents (86%,  $n=93$ ) agreed to being fully competent to speaking clearly and concisely. A total of 13% ( $n=14$ ) said that they were somewhat competent and only 1% said that they were inadequately competent.

**Table 4.47: Ability to speak clearly and concisely**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Inadequate competency	1	.9	.9	.9
Some competency	14	13.0	13.0	13.9
Fully competent	93	86.1	86.1	100.0
Total	108	100.0	100.0	

A total of 9.3 % ( $n=10$ ) of the respondents said that they either lacked competency or had inadequate competency to effectively present to an audience using visual aids as shown in table 4.48. A total of 70% agreed to that they were fully competent and 20% ( $n=22$ ) felt that they had some competency.

**Table 4.48: Ability to present to an audience using visual aids**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No current competency	2	1.9	1.9	1.9
Inadequate competency	8	7.4	7.4	9.3
Some competency	22	20.4	20.4	29.6
Fully competent	76	70.4	70.4	100.0
Total	108	100.0	100.0	

Table 4.49 showed the findings of the owner-managers' ability to persuade, negotiate and getting to an agreement that is acceptable to both parties and presented that 2% of the respondents admitted to not having current competency, 5% answered that they had inadequate competency, while 28% alleged that they possessed some competency and a larger number (66%) affirmed that they were fully competent.

**Table 4.49: Ability to persuade, negotiate and getting an agreement that is acceptable to both parties**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No current competency	2	1.9	1.9	1.9
Inadequate competency	5	4.6	4.6	6.5
Some competency	30	27.8	27.8	34.3
Fully competent	71	65.7	65.7	100.0
Total	108	100.0	100.0	

With more than 90% of the respondents strongly agreeing to possessing some competency to being fully competent in table 4.50, it was important to mention that there was a significant difference in respondents' age and possessing the ability to persuade, negotiating and getting an agreement that is acceptable to both parties ( $p_r = 20.240$ ,  $n = 108$ ,  $p = 0.032$ ).

**Table 4.50: Difference between age and ability to persuade, negotiate and getting an agreement that is acceptable to both parties**

		G3. Ability to persuade, negotiating and getting an agreement that is acceptable to both parties				Total
		No current competency	Inadequate competency	Some competency	Fully competent	
A4.What is your age group?	18 - 25 Years	0	0	0	1	1
	26 - 35 Years	0	1	7	9	17
	36 - 45 Years	0	0	13	23	36
	46 - 55 Years	0	1	5	27	33
	56 and Older	2	3	5	11	21
Total		2	5	30	71	108

Looking at the table 4.50 above, it appeared that older people seem to have none, or inadequate competencies when it comes to their ability to persuade, negotiating and getting an agreement that is acceptable to both parties.

A total of 72% (n=78) of respondents agreed that they were fully competent in their ability to listen attentively and to understand the views and feelings of others, and 24% were somehow competent. However, only 4% believed that they either had no current competency or were inadequately competent.

**Table 4.51: Ability to listen attentively and to understand views and feelings of others**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No current competency	1	.9	.9	.9
	Inadequate competency	3	2.8	2.8	3.7
	Some competency	26	24.1	24.1	27.8
	Fully competent	78	72.2	72.2	100.0
Total		108	100.0	100.0	

The table 4.52 presented below highlighted that most of the respondents appeared to be somewhat competent in communication skills. The majority of the respondents agreed being competent or fully competent in terms of the following:

- Ability to speak clearly and concisely with a highest mean of 3.85
- Ability to present to an audience using visual aids with a mean of 3.59
- Ability to persuade, negotiating and getting an agreement that is acceptable to both parties with a mean of 3.57
- Ability to listen attentively and to understand views and feelings of others with a mean of 3.68 respectively.

**Table 4.52: Statistics for communication skills**

	N	Mean	Std. Deviation	Std. Error Mean
Q5.1 Ability to speak clearly and concisely	108	3.85	.382	.037
Q5.2 Ability to present to an audience using visual aids	108	3.59	.711	.068
Q5.3 Ability to persuade, negotiating and getting an agreement that is acceptable to both parties	108	3.57	.673	.065
Q5.4 Ability to listen attentively and to understand views and feelings of others	108	3.68	.577	.056

*Note:  $p < .005$  for all values*

#### **4.3.3.6 Comparison between the five skills**

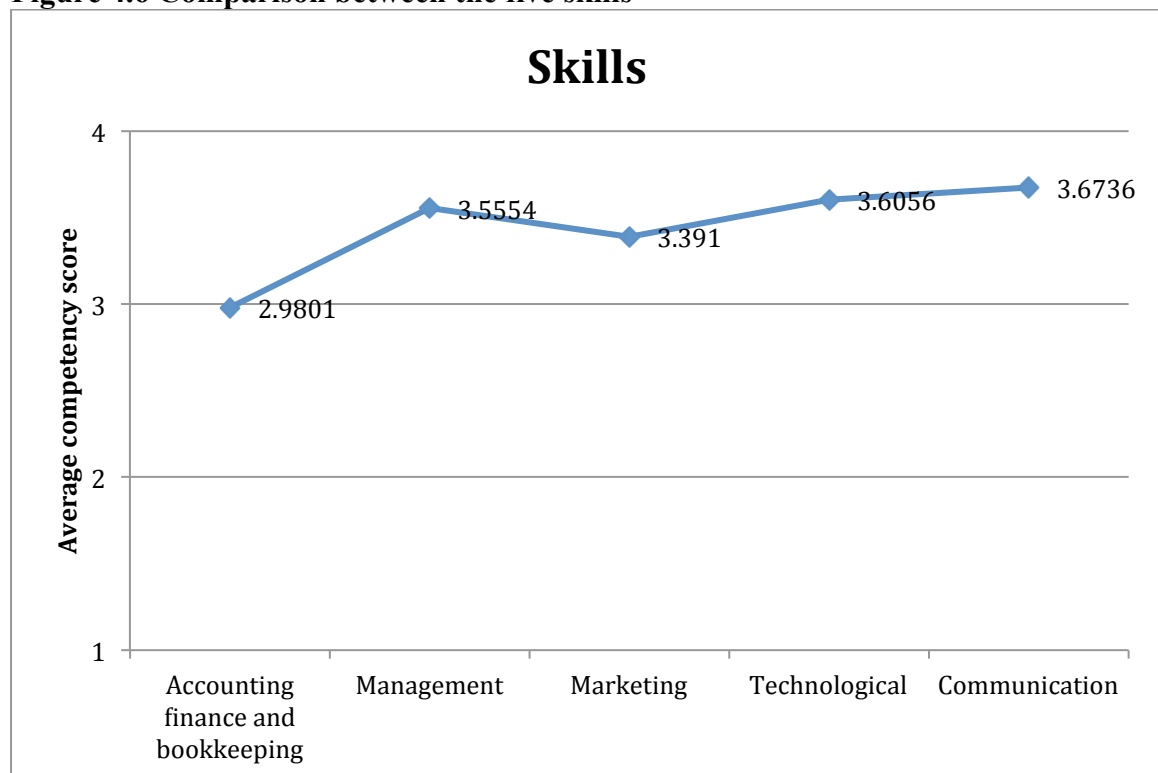
Table 4.53 below showed a comparison between the five skills and the results highlighted that most respondents did not agree that they possessed accounting, finance and bookkeeping skills with a mean of 2.98. However, most respondents agreed that they were competent with regards to management skills with a mean of 3.55. A mean of 3.39 was evident for marketing skills and indicated that most participants agreed they had competency in terms of their technological skills. A higher mean of 3.6 for communication skills suggested that most respondents agreed that they were competent to communicate effectively.



**Table 4.53: Descriptive statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Accounting, finance and bookkeeping skills	108	1.00	4.00	2.9801	.90657
Management skills	108	1.22	4.00	3.5554	.52415
Marketing skills	108	1.00	4.00	3.3910	.56838
Technological skills	108	1.80	4.00	3.6056	.53404
Communication skills	108	2.00	4.00	3.6736	.46797
Valid N (listwise)	108				

The results of the comparison between the skills were also presented in the graph below and it showed that there was no huge difference in means between the skills.

**Figure 4.6 Comparison between the five skills**

It was concluded that there was a significant difference selecting distribution channels appropriate for their products and services ( $H(4) = 9.749$ ,  $p = 0.045$ ); the ability to efficiently respond to customer requests and use sensitivity and discretion when dealing with customers ( $H(4) = 10.399$ ,  $p = 0.034$ ); a good knowledge of relevant legislation that affects their business ( $H(4) = 10.582$ ,  $p = 0.032$ ); the ability to use a word processing package to produce a variety of formats of documents ( $H(4) =$

13.699,  $p = 0.008$ ); the ability to send and receive e-mail ( $H(4) = 13.084$ ,  $p = 0.011$ ); the ability to use a search engine ( $H(4) = 19.760$ ,  $p = 0.001$ ); and the ability to present to an audience using visual aids ( $H(4) = 12.739$ ,  $p = 0.013$ ).

#### 4.4 RELIABILITY ANALYSIS

The Cronbach's alpha is one of the most commonly used reliability coefficients and was used for the purposes of this study to ensure that the measuring instrument was reliable. A minimum Cronbach alpha coefficient of 0.70 is normally acceptable and required (Field 2007, p. 666) and was set as the reliability coefficient for this study. The researcher noted that Schmitt (1996, p.350) indicated that satisfactory levels of relatively low (for example 0.50) levels do not seriously reduce reliability as it depends on the test use and interpretation. The Cronbach's alpha was calculated for all the questions in Section C and the results below show that the Cronbach alpha for all the questions was greater than 0.7 thereby indicating that the data was reliable.

**Table 4.54: Reliability statistics for the five skills**

	Cronbach's Alpha	N of items
Accounting, finance and bookkeeping skills	.950	5
Management skills	.937	9
Marketing skills	.940	10
Technological skills	.810	4
Communication skills	.786	4

The overall reliability for all the five skills was greater than 0.7 ( $\alpha = 0.948$ ,  $N = 33$ ), therefore it was concluded that the data was reliable.

- Accounting, finance and bookkeeping skills - this section was reliable, Cronbach's alpha was  $> 0.7$  ( $\alpha = 0.950$ ,  $N = 5$ ).
- Management skills – this section was reliable, Cronbach's alpha was  $> 0.7$  ( $\alpha = 0.937$ ,  $N = 9$ )

- Marketing skills – this section was reliable, Cronbach’s alpha was  $> 0.7$  ( $\alpha = 0.940$ ,  $N = 10$ ).
- Technological Skills – this section was reliable, Cronbach’s alpha was  $> 0.7$  ( $\alpha = 0.810$ ,  $N = 4$ ).
- Communication Skills – this section was reliable, Cronbach alpha was  $> 0.7$  ( $\alpha = 0.786$ ,  $N = 4$ ).

#### 4.5 SECTION D GENERAL OPEN-ENDED QUESTIONS

The last section of the questionnaire had open-ended questions and one of the questions aimed to obtain the respondents’ opinion about causes that could lead to most SME’s failure. Table 4.55 showed the top 20 causes of business failure that were identified by SMEs owner-managers in Pietermaritzburg.

**Table 4.55: Summary of what causes most businesses to fail**

Top 20 Causes for Business to fail	Total Number of Respondents	Percentage %
Poor management of finances	42	39
Poor management	27	25
Lack of finances (Cash Flow)	25	23
Poor marketing and market research skills	23	21
Poor planning	21	19
Lack of skilled staff	20	19
Lack of entrepreneurial skills	12	11
Poor adaption to market changes	10	9
Lack of motivational skills for staff	10	9
Poor customer and supply relations	9	8
Poor growth management	8	7
Poor mind-set	7	6
Corruption and theft	6	6
Lack of shared vision	6	6
Bad debtors	5	5
Lack of adequate capital	5	5
Reduced revenue due to economic down turn	5	5
Inconsistent service	5	5
Lack of access to the market	4	4
Excessive overheads	4	4

From table 4.55, poor management of finance was pointed out as the most common cause of business failure. The second common cause was poor management, thereby reflecting that most business owner-managers agree that poor management of enterprises are causing most business failures. Poor marketing and market research skills were the third common causes of business failure, followed by poor planning. Lack of skilled staff made it among the top five causes of business failure. Among other factors, respondents also identified the lack of access to the market and excessive overheads as some of the reasons that cause unsuccessful businesses.

#### **4.6 RECOMMENDATIONS TO MATCH THE AVAILABLE SKILLS TO THE REQUIRED SKILLS**

The last question in the questionnaire was also an open-ended question where respondents had to indicate some of the skills that they thought will be required in future by owner-managers. These suggestions were also to be used as some recommendations in the final chapter of this study on how to match the available skills and the required skills. Provided below is a table 4.56 that summarised the top twenty future skills that owner-managers of SMEs in Pietermaritzburg thought will be required by all owner-managers of SMEs.

**Table 4.56: Future skills that will be required by owner-managers**

<b>Future Skills for Owner Managers</b>	<b>Total Number of People</b>	<b>Percentage %</b>
Finance management skills	50	46
Marketing skills and market research skills	29	27
High technological skills	22	20
Management skills and admin skills	21	19
Planning skills	17	16
Business skills/entrepreneurial skills	16	15
Communication and listening skills	16	15
Customer and supply relations management	14	13
Human relations skills (people skills)	9	8
Networking skills	9	8
Compliance and knowledge of legislation that affects business	8	7
Training skills	8	7
Human resource skills	6	6
Vision to succeed	6	6
Ability to work and promote team work	5	5
Ability to adapt to the market	4	4
Leadership skills	4	4
Openness to constant change	4	4
Updating product knowledge	4	4
Delegation skills	3	3

## 4.7 CONCLUSION

This chapter provided the research findings of this study that helped to achieve the research objectives set out for the study. A skills audit was conducted by comparing the skills that literature offered are required by owner-managers to be successful with the responses that were given by the research participants in terms of their competency in accounting, finance and bookkeeping, management, marketing,

technological and communication skills. Thus achieving the second research objective to conduct a skills audit. This concurs with what was indicated by Watson (2004, p3) that the three key stages to a skills audit starts with determining what skills are needed and then determine which of the required skills each employee possesses and finally an analysis of the results and determining the skills development needs.

The analysis of the data collected suggested that most respondents agreed that they were fully competent with regards to all the five skills, thus the accounting, finance and bookkeeping, management, marketing, technological and communication skills. Therefore, there were no shortcomings of Pietermaritzburg SME owners in comparison to the required skills. However, Pietermaritzburg SME owner-managers conceded that poor management of finances, poor management, lack of finances, poor market and market research and poor planning mostly cause SMEs to fail. Almost half of the respondents (46%) suggested that owner-managers are required to have financial management skills in future to ensure the success of their enterprises. These suggestions are in line with the findings of the study that was conducted by Rajaram (2008, p. 135 - 136) where almost 75% of the respondents strongly disagreed that owner-managers of the SME sector in KwaZulu-Natal had necessary accounting and financial management skills. The following chapter offers a discussion of the findings recommendations and conclusions of the study.

# **CHAPTER 5**

## **DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 INTRODUCTION**

There is a huge contribution that Small Medium Enterprises (SMEs) make in the South African economy and these include creation of employment, contribution to the Gross Domestic Product (GDP) of the country and contributing towards the wage bill (Lekhanya 2015, p.412). Surprisingly, according to Lekhanya (2015, p.412) despite the importance of SMEs in South Africa, most businesses fail within the first two years. Lack of management skills has been identified as the main cause of most business failures. The overall purpose of this study, therefore, was to conduct a skills audit of selected Pietermaritzburg owner-managers to prevent business failures rates. The other purposes of this study were to evaluate the available skills of owner-managers in the Pietermaritzburg area and to critically assess any shortcomings of SME owner-managers in Pietermaritzburg in comparison to the required skills of successful entrepreneurs.

The main purpose of this chapter was to present a discussion of the findings of the study that was presented in the previous chapter (Chapter 4) incorporating the existing theory. This chapter also provided some recommendations and conclusions of this study. A discussion on how the research objectives were achieved was also highlighted in this chapter.

### **5.2 DISCUSSION OF FINDINGS**

A structured questionnaire was used to collect data from the research respondents. This consisted of five pages with four sections: Section A consisted of all the demographic details of respondents; Section B contained questions about the organisation. Section C had all the questions that assess the owner-managers' competencies and skill in managing their businesses. The last section had general questions that assisted in making relevant conclusions and recommendations of this

study. The study's research findings were presented in the previous chapter (Chapter 4).

### **5.2.1 Demographic data**

Man, Lau and Chan (2002, p. 125) asserted that the demographics of an enterprise are one of the most influential factors related to the performance of an SME and its competitiveness. The demographical data for this study revealed that most respondents were predominately males, constituting 58%. This is not too surprising as Ucbasaran, Westhead and Wright (2004, p. 432) indicated that women have been stereotypically associated with lower levels of human capital, have experienced fewer opportunities to develop relevant business experience and find it difficult to assemble resources. Von Broembsen *et al.* (2005, p. 26) endorsed this by mentioning that men are more likely to become well-established enterprise owner-managers than women. The findings therefore confirm the reality of the issue of South Africa's gender imbalances in the business sector with the balances skewed against women (Terblanche, Moeng & Macleod 2008, p. 259).

These findings are also in line with the results of the GEM reports (2001-2008) that women in South Africa are under-represented in most forms of economic activities regardless of a number of government initiatives to get women involved in entrepreneurship (Herrington, Kew & Kew 2010, p41). The findings of this research study however showed that the gap between male and female entrepreneurs has significantly changed and this was supported by the GEM (2014) report that showed that there has been an increase of women entrepreneurs because of the support from the South African government.

The majority race group was white making up 66.7% followed by Africans who accounted for 17,6% and Indians who totaled 13%. These results were in line with the findings of the study that was carried out by Von Broembsen *et al.* (2005, p. 26) that indicated that whites owned more new and established business in comparison to Indians, Africans and Coloureds. These findings are very encouraging as they showed that more Africans are now getting involved in entrepreneurship therefore opposing the findings by GEM report (2003) that Africans compared to than racial groups are less likely to be involved in entrepreneurial activity (Herrington *et al.* 2010, p4).



These results also confirmed a claim that was made by Van Scheers (2010, p.20) who highlighted that saying that all ethnic groups act and perform the same way would be a mistake because some ethnic groups are more entrepreneurial than others.

Most respondents were between the ages of 36 and 45 adding up to 33.3% and this was in line with a study that was conducted by Driver *et al.* (2001, p. 42) where the highest number of entrepreneurs were found to be in the 35 to 54 age category. However the findings of this study were different from a study that was conducted by Maas and Herrington (2006, p. 19) where out of 143 South African entrepreneurs, the majority of respondents were between the ages of 25 to 34 indicating that nowadays people start businesses from a very young age. Rwigema and Venter (2004, p. 70) went on to classify that an early start may result in limited abilities in training, education and work experience and starting too late may result in a lack of energy and youth resilience that businesses need (Rwigema & Venter 2004, p. 70). Bygrave (1997, p. 8) concluded by saying that successful entrepreneurs have the optimum energy of the youth and the experience that comes with age. The findings of this study also suggests that the South African maturing population take entrepreneurship as a career are “either remaining successful in business or exiting a business in order to start a new enterprise” (Herrington *et al.*, 2010, p. 42).

A total of 30.6% of the respondents had completed their matric and 66.6 % had more than a matric certificate. This concurs with Nieman and Nieuwenhuizen (2009, p. 31) who implied that matriculation increases one’s capacity to pursue entrepreneurial activities and tertiary education increases the durability of entrepreneurial activity. This therefore highlighted that high levels of education are associated with significantly higher levels of entrepreneurial activity (Nieman & Nieuwenhuizen 2009, p. 31). Lekhanya (2015, p. 411) also agreed with the other authors (Nieman and Nieuwenhuizen 2009, p. 31) when he highlighted that a person with tertiary education is more likely to find good opportunities to start a new business and they also have a higher survival rate.

A quarter (25%) of participants were employed in the retail sector followed by tourism and hospitality that constituted 13.9% of the respondents. Most of the organisations were registered as a close corporation constituting 39.3% and those registered as sole proprietors totaled 27.1%. This can be linked to what Storey (2000, p. 140) stipulated by saying that starting a sole proprietor is the easiest and cheapest

form of business and most entrepreneurs start as sole proprietors, and over time, as they expand, change to being registered as a company. Pride, Hughes and Kapoor (2012, p. 106) were also in agreement when they described sole proprietorship as one of the simplest forms of business ownership and easiest to start.

### **5.2.2 Skills of Pietermaritzburg Small Medium Enterprises owner-managers**

Hunter (2010, p. 234) identified management skills as problem solving, planning, negotiating, coaching and communication. Nieuwenhuizen (2004, preface) highlighted that the general management function, marketing function, finance function, operations function, human resources function, the administrative function, the external relations function and purchasing function are some of the most important and essential functions that entrepreneurs have to address. Rajaram (2008, p. 60) identified six skills that are extremely important to the owner-manager and these include “financial management, advertising and promotion skills, ability to use professional accounts effectively, cost and inventory control, pricing of products and services and ability to obtain funds for the enterprise”. The literature given above by different authors concurs with Maes *et al.* (1997, p. 69) who narrated that a number of studies have tried and failed to identify the complete range of skills that are required for effective business performance. Therefore, accounting, finance and bookkeeping, management, marketing, technical and communication skills were identified as some of the skills that are required by SMEs’ owner-managers for the purposes of this study.

#### **5.2.2.1 Accounting, finance and bookkeeping skills**

Kuzilwa (2005, p. 134) highlighted that the lack of finance can cause businesses to fail and sometimes constrained the growth of the business. Accounting, Finance and Bookkeeping skills are significant because good financial management is crucial to the success of any business especially in Small Medium Enterprises (SMEs) “where the risk of insolvency is often little more than an unpaid invoice away” (Mazzarol 2014, paragraph 1). This concurred with what was said by Mahadea and Pillay (2008, p. 433) highlighting that in Sub-Saharan Africa, finance was among the top five constraints to most SMEs’ development. Storey and Greene (2010, p. 312) gave an analogy of finance being the lifeblood of a business and how difficult it can be to see

how a business can be created, grow and survive without finance, thereby indicating that finance is an important fuel for small businesses development. Inadequate finance can also lead to liquidation problems in the business (Klapper, Laeven & Rajan 2006, p. 618). The lack of financial skills was noted as one of the most important causes for businesses to fail. A study conducted by Rajaram and O'Neill (2009, p. 115), concluded that lack of accounting and financial skills represented a huge problem for SME owner-managers in KwaZulu-Natal as the results showed that on average, KwaZulu Natal SME sector did not possess the accounting and financial skills that are needed for them reach their full potential and grow.

Van Aardt *et al.* (2008, p. 173) highlighted that accounting involves bookkeeping and financial reporting is done by preparing and presenting financial statements. Financial statements are used to report the enterprise's financial performance and financial position. Income statement and balance sheet are the two primary statements that are used for reporting purposes (Van Aardt *et al.*, 2008, p. 173). Therefore the aspects that are provided below were then used to determine the accounting, finance and bookkeeping skills of Pietermaritzburg SME owner-managers.

#### **5.2.2.1.1 Preparing an income statement**

According to Rajaram (2008, p. 49), information that relates to the business's financial performance, or profitability and includes all income and expense can be obtained from an income statement. With regards to Pietermaritzburg owner-managers' ability to prepare an income statement, it appeared that most respondents (72%) had some competency or were fully competent to prepare an income statement. However, out of the 108 respondents, 29% (n=30) highlighted that they had no competency or have inadequate competency to prepare an income statement. These results concur with a study that was conducted by Rajaram (2008, p. 135) that showed that most (75%) of the respondents disagreed and strongly disagreed that SME owner-managers in KwaZulu-Natal do not possess the necessary skills that are required to prepare an income statement. Further analysis of this study also highlighted that sole proprietors and partnerships had inadequate competency compared to close corporations and private companies who were more competent to prepare an income statement. These research findings are in agreement with Rajaram's study (2008, p. 135) that revealed that 60% of the research participants strongly disagreed and

disagreed that there was a sufficient level of accounting skills in the SME sector in KwaZulu-Natal.

#### **5.2.2.1.2 Preparing the balance sheet**

A total of 36 respondents had no competency or had inadequate competency to prepare a balance sheet. A total of 32% of the respondents agreed that they were fully competent to prepare a balance sheet and 34% had some competency to prepare a balance sheet. The analysis of the data also indicated that sole proprietors, and partnerships had more none to inadequate competencies when it comes to preparing a balance sheet, whereas close corporations and private companies had some to full competencies.

The results showed that a fair number of respondents had none to inadequate competency to prepare a balance sheet. This is of a major concern as “one of the important elements of entrepreneurial success is to maintain a solvent business and a balance sheet provides the factual financial description of the business value” (Stone 2003, p. 22). Therefore, a balance sheet is of extreme importance to any business as it helps small business owner-managers to determine the financial position of their businesses and the information contained is of crucial importance to manage a SME successfully (Rajaram 2008, p. 51).

#### **5.2.2.1.3 Analysing income and expenditure**

Marx *et al.* (1998, p. 714) also asserted the importance of the managing cash flow as it entails the inflow and outflow of cash. The results show that 49% of the respondents were fully competent to analyse income and expenditure. A total of 34% had some competency and a total of 17% (n=18) of the respondents indicated that they were either not competent or inadequately competent. It is therefore a good sign that most owner-managers can adequately analyse their income and expenditure, as cash is crucial to the survival of all businesses. Stokes, Wilson and Mador (2010, p. 361) highlighted that entrepreneurial financial management starts cash flow management, thereby indicating the importance of analysing income and expenditure.

#### **5.2.2.1.4 Preparation and interpretation of monthly, quarterly or yearly financial reports**

With regards to preparation and interpretation of monthly, quarterly or yearly reports, 11% of respondents answered that they had no competency to prepare and interpret monthly, quarterly or yearly reports. A total of 13% (n=14) agreed that they were inadequately competent; 33% (n=36) had some competency, while most of the respondents (42%, n=45) revealed that they were fully competent. The findings also revealed that sole proprietors had no or inadequate competency skills compared to close corporations and private companies concerning the preparation and interpretation of monthly, quarterly or yearly financial reports. These research findings are in support of the research conducted by Bruwer (2010, p. 69) that revealed that retail SMEs experience difficulty in interpreting and analysing accounting information.

Van Aardt *et al.* (2008, p. 250) advised owner-managers who cannot prepare and interpret financial statements, to learn how to do it or employ a qualified accountant even if it is part-time. Tlhomola (2010, p. 57) advised however that knowledge of interpreting financial statements is imperative and so is the preparation of cash budgets and maintaining cash flow projections.

#### **5.2.2.1.5 Knowledge on tax legislation including VAT, PAYE and UIF**

Over a third of respondents (36%) admitted to either having no competency or having inadequate competency levels with regards to the knowledge on tax legislation, including VAT, PAYE and UIF. The results further showed that sole proprietors had less competency skills compared to close corporations and private companies with regards to their knowledge on tax legislation including VAT, PAYE and UIF. The findings are in agreement with Rajaram (2008, p. 55) who explained that owner-managers of SMEs experiencing difficulty in complying with the tax regulations. This non-compliance to tax regulations can be caused by a lack of knowledge on tax legislation. Rajaram (2008, p. 112) recommended that SME owner-managers should improve their tax knowledge and skills as this will result in cost savings and finally ensure long-term survival of their enterprises. Terblanche, Moeng and Macleod (2008, p. 241) also advised SME owner-managers that they should keep up to date with recent information regarding tax because every year slight changes are made to

the tax system and sometimes the implications of these changes are quite significant to small businesses.

#### **5.2.2.2 Conclusions on accounting, financial and bookkeeping skills**

Nieuwenhuizen (2004, p. 316) stipulated that, “no one can be a successful small business entrepreneur or manager without a thorough understanding of financial management”. The analysis of the collected data indicated that most owner-managers agreed that they were fully competent in their accounting, financial and bookkeeping skills. These findings conflict with the results of the study that was conducted by Rajaram (2008, p. 103) that showed some evidence that a major problem for the KwaZulu-Natal SME sector was a lack of accounting and financial management skills. The findings also revealed that sole proprietors and partners had none to inadequate competency with regards to accounting, financial and bookkeeping skills compared to those in close corporations and private companies. The reason for this might be that sole proprietors and partners do not have the money to hire an expert to deal with their finances or go for financial management training, while those in close corporations and private companies can afford to go for training and hire financial experts.

The respondents of this research highlighted that finance skills are needed in future to allow for the success of SMEs thereby stipulating the need for financial management training. Murphy (1996, p. 14) quoted some researchers who have concluded that most small business owners lack the ability to manage their financial affairs of their businesses, because they are too task and sales oriented. This issue of being too task and sales oriented can lead to a situation where owner-managers do not realise that their businesses are in trouble until it is too late and they have no money and cannot pay their bills (Megginson 2000, p. 324).

A comparison between the five skills (accounting, financial and bookkeeping, management, marketing, technical and communication skills) showed that most respondents did not agree that they had accounting, finance and bookkeeping skills with a mean of 2.98. This concurs with a study that was conducted by Rajaram (2008, p. 135) that revealed that KwaZulu-Natal SME owner-managers did not possess the skills that are necessary for the preparation of income statements, balance sheets, cash flow statements and tax returns.

### **5.2.2.3 Recommendations on accounting, financial and bookkeeping skills**

This was supported by Pillay (2006, p. 36) who advised that it is imperative for entrepreneurs to equip themselves with the necessary financial skills as this will assist them to analyse and monitor financial activities in their businesses. Those owner-managers who lack competency to analyse their income and expenditure should be trained and encouraged to analyse the cash flow of their businesses, since most small businesses fail due to cash flow problems, as Nieman and Nieuwenhuizen (2009, p. 35) clearly indicated. Stokes, Wilson and Mador (2010, p. 361) advised owner-managers that they should avoid having huge amounts of cash being tied up in unproductive areas like debtors, work-in-progress and finished stock. They continued to emphasise that the key function of the financial management of a business is to have minimum cash locked up in these unproductive areas by shortening the time to collect money from debtors and improving turnover time of stock (Stokes *et al.* 2010, p. 361). A recommendation can be made to sole proprietors and partners to go for accounting and finance management training, as this will enhance their accounting, financial and bookkeeping skills.

Rajaram (2008, p. 47) suggested that the preparation of annual financial statements should be simplified as this will help in “reducing some of the financial and management problems experienced by the SME sector”. With regards to the knowledge of tax legislation, Rajaram (2008, p. 56) advised that owner-managers should outsource the taxation requirements when they lack the necessary tax skills even though it may not be a cheaper option. This concurs with what other research participants in this study highlighted when they said that they had finance experts (accountants and bookkeepers) who handle the finance side of their businesses. Kotze and Smith (2008, p. 35) concluded that low creation of new ventures and ultimately the high failure rate of SMEs in South Africa could be blamed on a lack of knowledge of financial management. They recommended that financial management skills could be provided to SMEs owner-managers in a bid to empower them to effectively manage their finances, in an attempt to increase entrepreneurship and decrease new business failures (Kotze & Smith 2008, p. 35). According to the work of Kotze and Smith (2008, p. 35), their previous observations indicated that by improving financial management skills can lead to improved profitability and survival of the small businesses. This was supported by Wolmarans and Meintjes (2015, p. 149) who

stipulated that an SME can survive over medium and long term if it financially well managed.

#### **5.2.2.4 Management skills**

Hunter (2010, p. 41) indicated that South Africa has a shortage of well-qualified and competent managers. Walker, Redmond, Webster and Clus (2007, p. 294) admitted that the lack of managerial competencies is one of the most common reasons why small business ventures fail and they suggested that it is mandatory for entrepreneurs to possess all the necessary knowledge and skills to run a successful small business. This was also supported by Analoui and Karami (2003, p. 36) who said that a manager's competencies and core competencies are main factors in the success of a SME and they went on to advise that a lack of managerial experience leads to inevitable business failure.

In terms of managerial skills, aspects below were used to determine the Pietermaritzburg SME owner-managers' managerial skills. These included; evaluating competing priorities in order to plan ahead, the ability to encourage and motivate others, ability to supervise or directly work with others, ability to manage time, ability to delegate managerial tasks, ability to assess the strength, weakness, opportunities and threats (SWOT) of their businesses, awareness of competitive advantage over competitors, and the ability to set down a sequence of managerial activities.

##### **5.2.2.4.1 Evaluating competing priorities in order to plan ahead**

Orser, Hogarth-Scott and Riding. (2000, p. 47) identified that some of the factors that lead to failure of SMEs as lack of planning, poor planning, absence of written plans and prioritising. Van Aardt *et al.* (2008, p. 211) then advised owner-managers that "fail to plan is planning to fail", thereby indicating the importance of planning. A smaller percentage of 2.8% (n=3) of respondents said that they had inadequate competency to evaluate competing priorities and plan ahead. Even though most research participants agreed that they were fully competent to evaluate competing priorities in order to plan ahead, they also identified poor planning as one of the most important reasons for business failure. Respondents in this study urged that planning skills will be one of the top skills that will be required in future by owner-managers in order to be successful.



#### **5.2.2.4.2 Ability to encourage and motivate others**

A majority of the respondents (65%) said that they were fully competent to encourage and motivate others, while 31% of the respondents had some competency and only 5% had none to inadequate competency. Many respondents agreed that they were competent to motivate others, and they identified the lack of motivational skills as one of the most common reasons why most businesses fail. This showed how important it is for owner-managers to possess motivation skills as highly motivated staff can lead to a successful business. This was endorsed by Zhang (2008, p. 20) who highlighted that entrepreneurs cannot achieve much without the assistance of qualified and motivated employees. Hunter (2010, p. 241) also agreed with the other authors when he emphasised that a motivated person is more likely to work harder over a long period of time to achieve certain goals. Unmotivated and dissatisfied workers tend to waste time and materials for the organisation as well as driving customers away due to poor customer service (April 2005, p. 50).

#### **5.2.2.4.3 Ability to supervise or direct work to others**

A total of 71% were fully competent in their ability to supervise and direct work to others. Only 21% said that they had some competency while a few (n=7) people felt that they were either inadequately competent or had no competency to supervise or direct work to others. The concept of supervising today has changed to one of leading or coaching a team or work group rather than exercising too much authority, therefore the role of supervisory management is improving (Mosley *et al.*, 1997, p. 16). It was therefore comforting to realise that Pietermaritzburg owner-managers are in a position to obtain quality and quantity production while maintaining good human relationships (Mosley *et al.*, 1997, p. 16).

#### **5.2.2.4.4 Ability to manage time**

Adebisi (2013, p. 165) described time management as one of the skills that are needed by people and business organisations to be successful. However most business managers and owners fail to manage time and treat it as a crucial survival factor (Adebisi 2013, paragraph 1). With regards to this study, it was very comforting to realise that only 5% (n=5) of the respondents agreed they were inadequately competent to manage their time. This was of little concern as a large number of

respondents answered that they managed their time well. This showed that most Pietermaritzburg owner-managers enjoy the fruits of good time management as was laid out by Kusashi (n.d, paragraph 2) who stipulated that “good time management will help in being productive, more creative, save money and avoid working ridiculous hours and greatly increase the chances of success in business”. It was then advised to owner-managers had no competency to manage in time management to improve their time management skills and should realise that time is a myth that cannot be created, stored or saved for future use (Adebisi 2013, p. 165).

#### **5.2.2.4.5 Ability to delegate managerial tasks**

A greater number of respondents (61%) indicated that they were fully competent in their ability to delegate managerial tasks with only 9% showing none to inadequate competency. These results are consistent as some respondents in this study advised that delegation skills will be required in future by owner-managers. This showed that either the research participants of this study got it right or they are realising the importance of delegating some managerial tasks. Gamelearn (2015) advised owner-managers that by delegating, they promote teamwork and this brings in different points of view, which can translate to increased efficiency and productivity. The ability to delegate managerial tasks also allows owner-managers to have a reduced workload so that they can have more time to concentrate on other important and critical issues concerning the management of the business (MSG 2016, paragraph 1). Owner- managers were also encouraged that by delegating powers and getting work done, this helps “the manager to attain communication skills, supervision and guidance, effective motivation and the leadership traits flourished” (MSG 2016, paragraph 6).

#### **5.2.2.4.6 Ability to assess the strength, weakness, opportunities and threats (SWOT) of your business**

SWOT analysis is a situation whereby an organisation identifies and evaluate its strengths, weaknesses, opportunities, and threats (Pride, Hughes & Kapoor (2012, p. 236). The internal factors that affect an organisation’s capabilities are its strengths and weaknesses. Strengths are the favourable characteristics of an organisation and its core competencies while weaknesses are the internal limitations faced by an organisation in developing or implementing plans (Pride et al., 2012, p. 237).

Opportunities are the favourable conditions in the environment that an organisation needs to exploit in order to produce rewards and threats. These are barriers that prevent SMEs to achieve its objectives (Pride et al., 2012, p. 237). Therefore if there is a favourable match between an organisation's internal strengths and weaknesses of its processes and its external opportunities and threats there is a high probability that an organisational strategy will be more successful (Van Aardt, Hewitt, Benderman, Bezuidenhout, Janse Van Rensburg, Naidoo, Van Aardt, Van der Bank & Visser 2011, p. 91).

One respondent said that they had no current competency and 57% were fully competent in their ability to assess the strength, weakness, opportunities and threats of their business. It is of greater importance that Pietermaritzburg SME owner-managers are competent to conduct a SWOT analysis of their businesses, as environmental scanning can help them formulating short-term objectives to satisfy long-term goals (Hodgetts & Kuratko 1995, p. 17). Tustin (2003, p. 44) commented that a SWOT analysis could help Pietermaritzburg SME owner-managers to improve the efficiency and competitiveness of their businesses and this can result in increased potential of small businesses to generate higher output, employment and eventually increased economic growth for the city. Nieman and Nieuwenhuizen (2009, p. 21) supported this by mentioning that, "successful entrepreneurs have good knowledge and skills regarding their enterprises to ensure reasonable success". Successful entrepreneurs depend heavily on their own strengths and are well aware of their limitations (Nieman and Nieuwenhuizen 2009, p. 21). An advice was given by Analoui and Karami (2003, p. 288) that owner-managers should be aware of their strengths and weaknesses and be ready to exploit their strengths and improve their weaknesses. Therefore, owner-managers can only become aware of their strengths and weaknesses if they are fully competent to conduct a SWOT analysis of their organisation.

#### **5.2.2.4.7 Awareness of competitive advantage over competitors**

Analysing the role of competitors and counter-competition intelligence and actions are critical for the successful survival of an SME (Kunene 2008, p. 40). When asked about awareness of their competitive advantage over competitors, over half (55%, n=59) of the respondents agreed that they were fully competent. This was consistent with Olawale and Garwe (2010, p. 732) who revealed the importance of SMEs knowing their competition, because the degree and potential of competition have an

effect on the SMEs' market potential and growth opportunities. Olawale and Garwe (2010, p. 732) went on to further urge that in order for SMEs to survive and be successful, owner-managers need to have a better understanding of the competition dynamics in the industry so that they can develop skills and competencies that give them an added competitive advantage over their competitors.

#### **5.2.2.4.8 Ability to set down a sequence of managerial activities**

It appears that 4% of the respondents were inadequately competent and 1% (n=1) was not competent in their ability to set down a sequence of activities. The analysis showed that most owner-managers are competent to set down sequence of activities and this is in line with what was indicated by Nieman and Nieuwenhuizen (2009, p. 22) that planning ahead is a leader's crucial characteristic and is imperative to growth. April (2005, p. 50) mentioned that various scholars raised concern that business owners spend a great deal of time on trivial matters and therefore an effective manager should rank items in the most coherent manner in terms of their importance.

#### **5.2.2.4.9 Ability to solve organisational problems**

Nieuwenhuizen and Kroon (2002, p. 159) suggested to entrepreneurs that if they want to be successful, they should have an "ability and perseverance to solve numerous problems, obstacles, challenging circumstances and difficulties in everyday running of their businesses". A majority of respondents (66%, n=71) indicated that they were fully competent to effectively solve their organisational problems. Further analysis of the findings suggested that older people admitted that they had no current competency to solve organisational problems. These research findings clashed with what Kunene (2008, p. 237) concluded by asserting that the increasing age of owner-managers had a positive correlation with fostering the development of skills. It was therefore advised that those who lack the ability to solve organisational problems should be taught and mentored on how to deal with organisational problems. Tlhomola (2010, p. 18) noted that education adds to the entrepreneurs' problem solving abilities in this regard.

#### **5.2.2.5 Conclusions on management skills**

According to Olawale and Garwe (2010, p. 730), in South Africa approximately 75% of new SMEs fail to become well-established enterprises. This was endorsed by

Olawale and Garwe (2010, p. 730) that in South Africa, there is less probability for a new SME to survive for more than 42 months compared to any other country sampled by the Global Entrepreneurship Monitor (GEM). The Current Minister of Trade and Industry, Rob Davies said that South African SMEs have a highest failure rate when compared to other countries with a staggering 70% SMEs fail within their first year of being established (SBP Alert, 2014, p. 2). The low growth rate and minimum survival of SMEs have been blamed on inadequate managerial competencies as was pointed out by Martin and Staines (2008) in Olawale and Garwe (2010, p. 731) who said that the lack of managerial experience and skills are the main causes of business failure. Lack of education and training in South Africa has reduced the capacity of SME managers, thereby leading to low levels of creation of new enterprises and high failure rates of SMEs (Olawale & Garwe, 2010, p. 730). It is therefore concluded that most respondents of this study agreed that they possessed the necessary management skills, but they further identified that management issues are the most common causes of business failure.

Rajaram (2008, p. 13) concluded that most studies have suggested incompetent management as the highest cause of small business failure. This is supported in the findings of this study where owner-managers identified poor management as one of the urgent causes of businesses to fail. It is also crucial to note that even though some studies have shown that the lack of access to funds is causing most businesses to fail, Rajaram (2008, p. 13) came to the conclusion that the realisation was greater that the greatest cause for most small business failure was lack of management skills. The latter realisation is supported by this study as most Pietermaritzburg SME owner-managers indicated that poor management of finances causes most business to fail thereby highlighting the issue of poor management. The lack of finances was noted as the third most common cause of business failure and this was in agreement with the World Bank (2012) report, which highlighted that poor management skills are the most common cause of business failure, but also acknowledged that the lack of finances is one of the reasons why most businesses fail. Agbenyegah (2013, p. 212) concluded that poor management skills can culminate into resources being poorly managed by SME owner-managers, which continues to fuel the challenges of business growth.

Rajaram (2008, p. 14) further explained that there has been a misconception by small business owners in South African that a lack of finance cause most businesses to fail, whereas poor management seems to be the main cause. South African Chamber of Business (1999, p. 12) mentioned that, “many entrepreneurs and owners of emerging and start-up small businesses perceive the lack of access to finance as the major obstacle to the growth and development of their business. Often this belief is misplaced as it obscures the shortcomings of the entrepreneur, the business concept and the management structures of the enterprise concerned”. Cant and Wiid (2013, p. 709) agreed with South African Chamber of Business (1999, p. 12) when they indicated that “lack of management skills, inadequate expertise in key function areas and lack of adequate financial understanding are the major causes of SME failures in South Africa”.

#### **5.2.2.6 Recommendations on management skills**

A recommendation was made to Pietermaritzburg owner-managers who lacked some management skills to go for business management training. Management training, according to Derera (2011, p. 26) is an effective way for SMEs to gain the expertise that need to manage successful and sustainable business ventures. Kuzilwa (2005, p. 131) conducted research in Tanzania on small business training and the conclusions of that study indicated that entrepreneurs who receive business training tend to run successful businesses in comparison to those entrepreneurs who do not receive any kind of business training. Clearly training helps owner-managers to successfully run their business.

Walter (2007, p294) raised concern when he mentioned that small business owners rarely participate in skills development and training activities. Therefore owner-managers should be made aware of the benefits of training and developing their skills. This was reinforced by Nieman and Nieuwenhuizen (2009, p.21) who suggested that the SME owner-managers should strengthen their managerial skills to eliminate serious problems and possible eventual failure. A conclusion was then made that there is a positive correlation between managerial areas of accounting, cash flow management and marketing, and lack of knowledge in one of these areas may give rise to a problem in another area (Nieman & Nieuwenhuizen 2009, p. 21).

According to Kuzilwa (2005, p146), the entrepreneurs’ ability to effectively manage their businesses can be increased through education. This was supported by

Stringfellow and Shaw (2009, p. 140) who indicated that there is a strong positive relationship between education and entrepreneurship. Walker *et al.* (2007, p295) mentioned that an ingredient for achieving growth and gaining competitive advantage in the global economy is an educated and skilled entrepreneur. Therefore, Nieman and Bennett (2005, p101) recommended that there is need for management skills to be continuously developed in order for owner-managers to effectively perform their various roles and duties.

#### **5.2.2.7 Marketing skills**

Pather (2003, p. 14) highlighted that the entrepreneurs' ignorance of the market is one of the most common causes for most small business failure; therefore one of the key skills needed by SMEs is marketing skills (Hankinson 2000, p. 94). Bradley (2002, p. 15) argued that most businesses are "technically very proficient" but do not have the sales and marketing knowledge that is crucial for selling their products. SmallBusinessPro (2016) indicated that marketing is a essential skill as it allows owner-managers to understand what their customers want and deliver exactly the products and services that match those needs and this is how their businesses can be successful. Aspects below were used to determine the marketing skills in this study and these included owner-managers' knowledge on advertising their products and services, revising of pricing of their products and services, promoting their products and services, selecting distribution channels appropriate for their products and services, evaluating customer satisfaction, dealing with customer complaints, marketing strategies of their SME, the ability to generate new ideas, the ability to efficiently respond to customer requests and use sensitivity and discretion when dealing with customers, and good knowledge of relevant legislation that affects their businesses.

##### **5.2.2.7.1 Knowledge on advertising your products and services**

Nieuwenhuizen (2011, p.181) highlighted that SMEs need to carefully plan how to advertise their business's products and services because prescient advertising can generate positive influences that can lead to increased sales but if advertising is done wrongly and poorly, the money spent on advertising will be wasted. Nieuwenhuizen (2011, p. 181) clearly mentioned that, "advertising is one of the most costly, necessary and yet unprecedented expenses of any business. Without it a business has little chance of surviving. With it – if the advertising is done poorly (and most of the

time it is) – a business can still fail”. For the purposes of this study, almost half of the respondents were fully knowledgeable about the advertising of their products and services. It was comforting to note that Pietermaritzburg owner-managers they will reap the fruits advertising as advertising allows businesses to attract more customers through awareness about their products and services and this persuade consumers to buy, thereby increasing sales and market share which can lead to the sustainability of SMEs (Terkan 2014, p. 240). Terkan (2014, p. 240) advised the owner-managers that lack competence to advertise their products and services that they should realise that consumers control today’s market so they should be fully skilled to persuade and attract customers to buy their products and services.

#### **5.2.2.7.2 Revising of pricing of your products and services**

Pricing should be considered as part of the overall marketing strategy, but most owner-managers are uncertain on how to price their products and services (Kuratko & Hodgetts, 2004, p. 243). Therefore, pricing is crucial for small businesses as it makes a difference between success and failure of any business (Megginson, Byrd & Meggison 2000, p. 177). Only 10% of the respondents had none to inadequate competency on how to revise the pricing of their products and services. It is of great importance for owner-managers to be fully competent to revise the pricing of their products and services because pricing can contribute to success or failure of any business especially for small businesses (Meggison *et al.*, 2000, p. 177). Due to the country’s extremely tight economic conditions, there is strong need for owner-managers to revise the prices of their products and services and this was indicated in a study that was conducted by Fin24 in the Witness 2016 (8 July, p. 6) that showed that “consumers have been price conscious but have become even more so within their choice of stores”. According to the 2015/2016 Nielsen study of South African Shopper Trends, the bargain seeking behaviour is high among South African shoppers (Witness 8 July 2016, p. 6). This have also led to consumers to know the prices of items that they regularly purchase and to easily notice any price changes (Witness 8 July 2016, p. 6)

Wasserman (2010, n.p) advised that one of the secrets to success of a business is proper product pricing because when products are priced correctly, this can enhance how much a business sells therefore creating the foundation for a prosperous business. Baron and Shane (2008, p. 298) described that many entrepreneurs fail to set prices



relative to costs and this can result in them running out of business despite experiencing rising sales. In agreement with this statement, Wasserman (2010, n.p) said that if the pricing is wrong, problems may be created that a business may find very difficult to overcome. Therefore owner-managers should be able to determine the prices and margins structures that are competitive and develop pricing policies that maximize profits (Timmons & Spinelli, 2007, p. 268). Nieuwenhuizen (2011, p. 109) advised that price should cover the product cost and contribute to profit while at the same time should also be competitive and in line with the image and quality of the product.

#### **5.2.2.7.3 Promoting your products and services**

With regards to the promotion of their products and services, most respondents (46%) agreed that they had some competency. The analysis of this study also indicated that owners and partners were the only ones who were either not competent or inadequately competent to promote their products and services. It is of great concern that owners and partners lack competency to promote their products and services, as promotion is an approach that is used to inform customers and potential customers about their products and services (Wickham 2004, p. 324). This can lead to a low market share due to less customers and probably the closure of businesses because of a very low customer base.

#### **5.2.2.7.4 Selecting distribution channels appropriate for your products and services**

Distribution presents challenges to entrepreneurs because distribution channels are difficult to set up (Bygrave & Zacharakis 2011, 176). The analysis of the data collected showed that Pietermaritzburg SME owner-managers are less likely to face difficulties that were mentioned by Bygrave and Zacharakis (2011), as only 2% of the respondents agreed that they had no competency to select appropriate distribution channels for their goods and services. It is comforting to realise that most respondents note the importance of selecting distribution channels that are appropriate for their products and services, because distribution has many cost saving potential, therefore it is very important to small businesses (Megginson *et al.*, 2000, p. 209).

#### **5.2.2.7.5 Evaluating customer satisfaction**

Van Aardt (1997, p. 193) explained that many organisations lose customers because of poor customer service. The findings of this study revealed that one respondent out of 108 had no current competency to effectively evaluate their customers' satisfaction and more than half (54%) claimed to be fully competent. This was a good point to note as satisfied customers are most likely to use the enterprise's products and services again and there is a high probability that they will also recommend it to potential clients (Nieman & Nieuwenhuizen 2009, p. 20). Nieman and Nieuwenhuizen (2009, p. 20) advised owner-managers to strive to meet customers' expectations as this ensures customers' satisfaction, thereby highlighting the importance for owner-managers to be fully competent to evaluate customer satisfaction.

#### **5.2.2.7.6 Dealing with customer complaints**

When asked how competent they were in dealing with customer complaints, 67% (n=72) of the respondents acknowledged that they were fully competent compared to 7% that had none to inadequate competency. Further analysis of the data indicated a significant association between the position in the company and dealing with customer complaints. It is of great concern that some business owners and managers lacked in their ability to deal with customer complaints. This inability can lead to them losing customers due to not meeting customers' needs and demands. It is therefore not desirable for a business to lose customers as this loss can lead to less sales and eventually the closure of the business. Josh (2009, n.p.) emphasized this by indicating that customer complaints that go "unheeded" can cost businesses dearly. An efficient and reasonable response to customer complaints can increase customer loyalty and earn a business the reputation of top quality service. MacDonald (2015, paragraph 1) advised owners and managers to note that when customer complaints are well-handled, customers are more likely to use their products and services in future, while a dissatisfied customer is more likely to go elsewhere and tell other people about their bad experience.

#### **5.2.2.7.7 Marketing strategies of the organisation**

An observation was made by Analoui and Karami (2003, p.237) that successful small businesses are committed to their marketing strategy as they focus on customer needs. For the purposes of this study, a total of 12 % of the respondents showed that they had no current competency to being inadequately competent. Van Scheers (2011, p 5055) advised those SMEs who were not competent about the marketing strategies of their organisation that they have to develop marketing strategies for their products and services as the success of their businesses is based on their ability to grow a body of satisfied customers. It was concluded that older people seemed to have no competency or inadequate competency when it comes to marketing strategies. This results showed a negative correlation between the owner-managers' increasing age and fostering the development of entrepreneurial skills unlike a research conducted by Kunene (2008, p. 237) where the research showed a positive correlation between owner-managers' increasing age with advancement of entrepreneurship skills.

#### **5.2.2.7.8 Ability to generate new ideas**

Of the 108 research participants, 58 were confident to say that they were fully competent to generate new ideas compared to one respondent who said that they lacked current competency. Nieman and Nieuwenhuizen (2009, p. 33) said, "creativity and innovation are manifested through the creation of new products and services and alternative ways of doing things". The results showed that 50 respondents were not quite innovative and creative, thereby highlighting the need for training for the owner-managers who feel that they are not fully innovative or creative. Nieman and Nieuwenhuizen (2009, p. 32) asserted that there has been a great deal of pressure on small businesses to establish competitive advantage through the generation of new ideas and ways of conducting business.

#### **5.2.2.7.9 Ability to efficiently respond to customer requests and use sensitivity and discretion when dealing with customers**

A majority (66%, n=71) of the respondents strongly agreed that they were fully competent, while 31% specified that they possessed some competency to efficiently respond to customer requests and use sensitivity and discretion when dealing with customers. The New Zealand Ministry of Business, Innovation and Employment

(2010, n.p) advised businesses that it costs them less to keep existing customers than to win a new customer, therefore it is more profitable for businesses to retain existing customers. Therefore, it is of great importance that most Pietermaritzburg SME owner-managers are in a position to efficiently respond to customer requests and use sensitivity and discretion when dealing with customers, as they are more likely to retain their existing customers. It is advisable to those respondents who lack competence to deal with customer requests to realise that satisfied customers are more likely to use the products and services again, thereby highlighting the importance of dealing with customer complaints efficiently and using sensitivity when dealing with customers. The New Zealand Ministry of Business, Innovation and Employment (2010, n.p) clarified that owner-managers should also note that satisfied complainants are more loyal than customers who do not complain at all, because they are more likely to leave and having customer complaints can be viewed positively.

#### **5.2.2.7.10 Good knowledge of relevant legislation that affects your business**

Van Aardt *et al.* (2008, p. 252) commented that businesses should not only comply with tax laws but also with all the legislation that affects their businesses either directly or indirectly. However, Baron and Shane (2008, p. 120) implied that it is impossible for entrepreneurs to be fully aware of all the regulations that may apply to their businesses, but it is of greater importance that they are well knowledgeable on the most important ones. Therefore, for the purposes of this study, participants were asked about their knowledge of relevant legislation that affects their business; 16% (n=17) of participants acknowledged to not having current competency to inadequate competency and full competency was prevalent in 48% of the respondents. It was also notable that respondents with no matric qualification had no current to inadequate competency on relevant legislation that affected their business. This is in line with what Kunene (2008, p. 237) noted when it was discovered that successful SME owner-managers who had more than matric considered themselves competent in enterprising skills compared to those who had no matric. A conclusion was then reached that education levels have an effect on the competence of SME owner-managers' business skills highlighting a positive correlation between an increase of education levels and the development of entrepreneurship skills (Kunene 2008, p. 237). It was also interesting to note that sole proprietors had no competency skills compared to close corporations and private companies when it came to knowledge of relevant legislation that affected their business.

#### **5.2.2.8 Conclusions about marketing skills**

Maharaj (2003, p. 31) concluded that marketing is a skill that a few small business owner-managers are trained in. This contradicts the findings of this study as most owner-managers agreed that they had marketing skills. Regardless of most respondents agreeing to be fully competent in terms of their marketing skills, they identified poor marketing and the lack of market research skills as the fourth most common cause of business failure. Tlhomola (2010, p. 23) highlighted that regardless of the benefits of market research, many entrepreneurs fail to do so due to cost, complexity and need for strategic decisions and irrelevancy. The respondents then advised that marketing and market research skills are at the top of those skills that owner-managers will require in future for them to be successful.

#### **5.2.2.9 Recommendations on marketing skills**

A recommendation was made to those owner-managers that are not competent on how to advertise their products and services to make use of advertising agents and if they find it too costly, they can advertise their businesses in newspapers or make use of social media as this turns out cheaper. Marketing and marketing research skills will be needed in future by owner-managers in order to ensure that their businesses succeed. Gilmore, Carson and Grant (2001, p. 6-7) suggested to those SME owner-managers who fail to market their goods and services due to lack of finances that they can make use of networks. The costs of networking are relatively low and the benefit is that owner-managers do marketing through their natural and inherent entrepreneurial activities, thus marketing by networking (Gilmore *et al.*, 2001, p. 6-7). Gilmore *et al.* (2001, p7) defined networking for business activities as companies coming together with a common objective, working together and co-operating through exchanging and sharing of business ideas, knowledge and technology.

These networks can happen through trade events, personal contacts in conjunction with marketing intermediaries and as SME owner-managers' part of social endeavours (Gilmore *et al.*, 2001, p7). Gilmore *et al.*, (2001, p7) further concluded that the existence of effective networking could result in the maximisation of marketing opportunities thereby ensuring successful survival and development of enterprises through the fruitful interaction with customers and competitors. Zhang (2008, p. 130) further highlighted the importance of networking by saying that as

business opportunities are increasing globally, there has been a strong need for business networking to take place on more efficient levels. An article in the Witness (2015, p. 11) quoted Gugu Mjadu, who is the Business Partners general manager, suggesting that business owners should establish connections through networking, as it is a vital part of the marketing process.

Pietermaritzburg Chamber of Business offers some small business networking opportunities for Small Medium Enterprises (SMEs) in Pietermaritzburg at no charge. Some of the sessions that the Chamber dealt with during the past year were aimed at business managers and individuals who understand the importance of discovering and creating opportunities in today's business environment. They also dealt with how entrepreneurs can discover and exploit opportunities to create value and sustain competitive advantage and what key issues small businesses face when it comes to opportunities in the South African business environment. An invitation was also made for businesses to promote their businesses by being given an opportunity to give a five-minute presentation on what their companies had to offer (Pietermaritzburg Chamber of Business 2014, n.p). The Small Enterprise Development Agency (Seda) also offers some networking opportunities for Small Medium Enterprises in Pietermaritzburg. SEDA (2016, paragraph 3) said that their mission is to “develop, support and promote small enterprises throughout the country, ensuring their growth and sustainability in co-ordination and partnership with various role-players, including global partners, who make international best practices available to local entrepreneurs”. With reference to what was said by Mjadu (2015) in the Witness (2015, p. 11), entrepreneurs were advised to set aside some time for networking including speaking at industry events in order to build good business relationships.

It was also recommended by Mjadu (2015) in the Witness (2015, p. 11) to owner-managers that they should have more online presence as consumers these days are using the internet as their first point of call to buy goods and services. The use of social media as a form of marketing was also suggested to Pietermaritzburg owner-managers and Mjadu (2015) in the Witness (2015, p. 11) cited the Social Media Marketing Industry Report for 2015 that reported more than 66% of business owners experienced lead generation benefits by spending time on social media as part of marketing.

#### **5.2.2.10 Technical skills**

Technical skills include “the ability to properly operate a computer, efficiently use the various software programs that are required in a particular environment that are significant to SMEs and handle other electronic gadgets that pertain to a job function” (Williams 2008, paragraph 2). Sandra Burmeister who is the CEO of Amprop Landelahni cited in the Witness (2016, p. 11) mentioned that technology is causing workplace disruptions with increasing speed and intensity. Technology was described by Hunter (2010, p. 249) as the way of doing things, techniques and methods used to produce specific outputs, and examples of technologies are computers and other machinery and equipment used for producing products and services. Hunter (2010) concurred with Van Aardt (2008, p. 56) who stipulated that technology resources include those that support the production process, computer technology, the Internet and special recipes that are developed by the entrepreneur and patents. Tustin (2001, p. 83) then agreed that inadequate technical proficiency is one of the most prominent reasons for business failure. This was in conjunction with Perks and Struwig (2005, p. 178) who stipulated that technical skills are a necessity to ensure a successful business start-up and survival. Olawale and Garwe (2010, p. 731) went on to add the advantages of having adequate technical skills by pointing out that technology does not only help to evolve a strategy that is multi-pronged but also helps for maximisation of opportunities for the business.

For the purposes of this study, most respondents agreed that they were fully competent in terms of technological know-how. With regards to technological skills, Pietermaritzburg owner-managers were asked about their ability to create, store and retrieve files from the computer, ability to use a word processing package to produce a variety of formats of documents, ability to send and receive e-mails and their ability to use search engines, for example, Google.

##### **5.1.2.10.1 Ability to create, store and retrieve files from the computer**

Most respondents (73%) confidently said that they were fully competent to create, store and retrieve files from the computer. As Kreitner, Kinicki and Buelens (1999, p.428) mentioned the importance of use of e-mails in today’s business environment and these emails may have attachments that may need to be retrieved and saved. It is

therefore encouraging to discover that most respondents are fully competent to work with files on a computer.

#### **5.2.2.10.2 Ability to use word processing package to produce a variety of formats of documents**

A small total of 12% (n=13) of participants highlighted that they had no current competency to inadequate competency in their ability to use a word processing package to produce a variety of formats of documents. Word processing programs help businesses to move away from old ways of doing business and achieve professional goals easily and cheaply (Bartlett 2015, n.p). According to Bartlett (2015, n.p), word processing also opens businesses to telecommuting and online meetings. It is therefore comforting to discover that most Pietermaritzburg SMEs are experiencing the benefits of word processing and utilising them in their businesses. Bartlett (2015, n.p) further indicated that it used to take several meetings, rounds of typed notes and one person to get everything in order when collaborating a project before word processing. But now using word processing, workers are in a position to share revisions on documents via internal computer networks or use files located on a single data server (Bartlett 2015, n.p). The use of word processing saves time and money and considering the benefits of such word processing, it is highly advisable to the thirteen participants who are not competent to use this to enrol for computer training. If it is too costly for employees to go for training, they can make use of someone whom they know who can assist them at a cheaper rate or for free. Microsoft also offers a free online word processor for Microsoft account holders so owner-managers can get to the latest version of word processing freely (Bartlett 2015, n.p).

#### **5.2.2.10.3 Ability to send and receive e-mails**

The results to this question indicated that most respondents (89%) were fully competent to send and receive emails. It was comforting to note that most respondents are fully competent to send and receive e-mails as Kreitner *et al.* (1999, p. 428) mentioned that e-mails have proven to be critically important in today's business environment. Niewenhuizen (2004, p. 245) also gave the importance of using emails in the modern days by narrating that e-mail is a tool that allows entrepreneurs to provide customers with compelling reasons to buy a particular product or service. The use of new e-marketing tools can also assist small businesses to create personalised



dialogues with their customers and customise product or service offerings according to customers' specific needs and wants (Niewenhuizen (2004, p. 245).

Many business owners market their products and services through mailing lists where groups of people communicate by e-mail about a particular subject and customers can sign up to receive commercial email messages about topics of interest. Therefore the use of e-mails can also help entrepreneurs to respond to queries and comments, thereby increasing exposure of their products and services (Niewenhuizen 2004, p. 245). Nieman and Niewenhuizen (2009, p. 86) agreed with the other authors when they mentioned that the web and the e-mail technology have created an entirely new and effective mechanism for relating to customers. Mjadu (2015), cited in the Witness (2015, p. 11), highlighted the importance of the use of e-mails to business owners when she said that approximately 66% of consumers have made online purchases because of an e-mail marketing message, therefore e-marketing campaigns are less costly but yet effective tools for marketing.

#### **5.2.2.10.4 Ability to use search engines**

A very small number (3%, n=3) of respondents revealed that they were inadequately competent to use search engines like Google. The use of search engines help owner-managers when conducting research, therefore, it is comforting to note that most Pietermaritzburg owner-managers are well aware of how to use the search engines. The Earnest Agency cited by Mjadu (2015) in the Witness (2015, p. 11) reported that business-to-business (B2B) purchase cycles totalling an approximate 81% start with a search on the web and it was also reported that roughly 90% of buyers source their supplier through the web when they are ready to make a purchase.

Niewenhuizen (2004, p. 243) indicated that the introduction of the Internet has changed the way people do business and the Internet can be an economical and efficient way to market to customers. Local.biz.co.za is an example of a site where small medium enterprises (SMEs) in South Africa can obtain a listing on business indexes and have their own web page thereby providing SMEs with effective, yet inexpensive Internet advertising and online exposure (Niewenhuizen 2004, p. 243). This was supported by Van Aardt *et al.* (2008, p. 31) who indicated that Internet is an invaluable source of this technological age. Entrepreneurs can find the Internet useful when investing in developing new product and service and they can use the Internet to

determine financial and other support available to entrepreneurs (Van Aardt *et al.* 2008, p. 31).

The rapid growth of the internet has also changed the way companies conduct business and the way they communicate and interact with customers (Stockmyer 2012 p. 14) making it crucial for owner-managers to be fully competent to use the Internet and search engines.

#### **5.2.2.2.11 Conclusions on technological skills**

Van den Barselaar, the Manpower South Africa managing director was quoted in the Mail and Guardian (2015, n.p) by Steyn (2015) when he lamented that a lack of technical skills has compounded to increased skills deficit in South Africa. It was comforting to note that in terms of technological skills, most respondents agreed that they were either competent or fully competent. Pietermaritzburg is a city so the findings of this study concurred with what was described by Van Aardt *et al.* (2008, p. 101) that South Africa is experiencing extremely high levels of technological development in the urban areas but little in the underdeveloped rural areas.

These findings then contradicted a study that was conducted and reported by Von Broembsen *et al.* (2005, p. 33) that in 2003, 28% of the South African owner-managers highlighted that they used the very latest technologies and in 2005, none of the respondents said that they used the latest technologies. Von Broembsen *et al.* (2005, p. 33) showed that small business owner-managers found it difficult to cope with the ever-changing technologies but this is not the case with this study as most owner-managers reported that they were fully technologically competent. This supports what Mboyane (2006, p. 45) commented that businesses are managed better when at least some technology is used. Keasey and Waston (1993, p. 229) highlighted that a lack of use of new technology affects small businesses adversely as technology is a critical factor that limits the growth and expansion of small businesses. Tlhomola (2010, p. 94) stated that the use of appropriate technology can help owner-managers to experience enhanced credibility, improved marketing efforts, higher sales, lower costs and the ability to expand into global markets.

It is also important to note that most owner-managers agreed that they were technologically competent. When respondents were asked about the skills that they

thought that would be required in future, they identified high technological skills as one of the top skills that will be required. This concurred with what was said in the Witness (2016, p. 11) that the changes that are being experienced in the world of work mean that technically skilled graduates will be highly demanded in the years to come. These findings assures that Pietermaritzburg owner-managers have higher chances of successfully developing their enterprises and form part of the statistics of the research that was conducted by Van Aardt *et al.* (2008, p. 253) that concluded that technology is the vehicle for over seventy percent of development and success. They will also not form part of the small enterprises whose progress is hampered due to a lack of technology (Van Aardt *et al.*, 2008, p. 253). However, it should be noted that the use of technology involves costs as computer hardware needs to be bought and installing software, the reality is that SMEs with less finance access may find it to be a challenge to access modern technology (Chimucheka 2013, p. 789).

#### **5.2.2.12 Recommendations on technological skills**

It can be recommended that the 11% of respondents who did not show full competence to send and receive e-mails should get training. Tlhomola (2010, p. 94) acknowledged that the use of appropriate technology is one of the important factors to a successful competitive advantage of any SME. It was then recommended that successful owner-managers should constantly upgrade their operational and production and techniques. Tlhomola (2010, p. 94) continued to highlight that the use of up-to-date and new technologies leads to better and more competitive products and services, improved efficiency, reduced operational and production costs and improved quality of the products and services. Von Broembsen *et al.* (2005, p. 33) advised South African enterprises that they have enormous growth potential in that they are able to apply the latest technologies to their products and services. Pillay (2006, p. 69) then recommended Pietermaritzburg owner-managers to apply appropriate technology in their businesses in order to enhance the growth potential of their enterprises.

#### **5.2.2.13 Communication skills**

Addis (2003, p. 153) asserted that owner-managers need good basic communication skills to successfully attract funders and skilful employees. Baron and Shane (2008, p. 154) emphasised the importance of effective communication to entrepreneurs, as it is one of the essential ingredients for establishing and maintaining an effective working

relationship. Owner-managers need both oral and written communication skills, as they need the ability to speak concisely, listen and write effectively (Pride *et al.*, 2012, p. 237). Kantane, Sloka, Vilcina and Ozolina (2012, p. 113) agreed with the other authors when they said that communication is an essential factor for implementing effective entrepreneurship and it forms part of the owner-managers' world of the basic management functions of planning, organising, leading and controlling. To determine the communication skills of this study, respondents were asked about their ability to speak clearly and concisely, the ability to present to an audience using visual aids, the ability to persuade, negotiate and getting an agreement that is acceptable to both parties, and their ability to listen attentively and to understand views and feelings of others.

#### **5.2.2.13.1 Ability to speak clearly and concisely**

According to Pride (2012, p. 244), it is critical for owner-managers to have the ability to speak and listen well as they spend most of their day conversing with others. One participant admitted that they were inadequately incompetent to speak clearly and concisely with the majority of participants being either fully competent or inadequately competent. It is of crucial importance for owner-managers to be able to speak clearly and concisely especially when delivering proposals and reports, as their messages need to be clearly delivered. In the Small BusinessPro (n.d, n.p), owner-managers were advised that whether they are in a meeting or meeting someone at a networking event, the way they present themselves dictates how the other person(s) acts upon what they will be saying. Wickham (2004, p. 455) insisted that owner-managers should make a note that communication is not just a passage of communication but it is also an attempt to influence behaviour. Supporting this view, the Small BusinessPro (2016) indicated that successful business owners should be effective communicators whether it is with their staff, directors or customers. Therefore Pietermaritzburg owner-managers are in a position to enjoy the fruits of conveying clear messages and effective communication skills.

#### **5.2.2.13.2 Ability to present to an audience using visual aids**

Visual aids help the audience to understand information on what the presenter will be talking about (Boyd 2015, n.p). Most people learn more through visuals than listening as was indicated by a study that was noted by Boyd (2015,n.p) when the results

showed that after three days of a presentation, people who only heard a speaker remembered 10% of the information while those who heard and saw visual information remembered 65% of the information. Asked about their ability to present to an audience using visual aids, a majority (70%) of research participants agreed that they were fully competent. The use of visual aids during presentations is very important to owner-managers so it is of great importance to note that most Pietermaritzburg owners are fully capable of using visual aids. The good use of visual aids also helps owners-managers to experience an increased audience interest, whether it is their employees, customers, financiers or directors (Boyd 2015, n.p).

#### **5.2.2.13.3 Ability to persuade, negotiating and getting an agreement that is acceptable to both parties**

Most respondents (66%) agreed that they were fully competent to negotiate in a way that resulted in an agreement that was acceptable to both parties. This is good for owner-managers as Guzman and Santos (2001, p. 216) commented that having persuasive negotiating skills is important for entrepreneurship. However, the results also showed that older people seemed to have none to inadequate competency to persuade, negotiate and getting to an agreement that is acceptable to both parties. This is the opposite of the findings of the research conducted by Kunene (2008, p. 237) who asserted that age has an effect on the competence of successful SMEs in enterprising skills. Kunene (2008, p. 237) further concluded that increasing age of SME owner-managers is positively correlated with fostering skills development.

#### **5.2.2.13.4 Ability to listen attentively and to understand views and feelings of others**

Meggison *et al.* (2000, p. 258) further explained that inattention and poor listening are the greatest barriers to effective communication. Most SME owner-managers make the mistake of not paying attention to feedback given by employees because they are often preoccupied with running their businesses (Meggison *et al.*, 2000, p. 258). Burke (2006, p 61) clearly indicated that entrepreneurs are not good listeners and they have a tendency of liking to hear the sound of their own voice. These owner-managers probably do not realise that communication is the best ingredient to motivating staff and that workers feel empowered if they are provided with an opportunity to express their opinions about their work (Van Aardt *et al* 2008, p.250).

Research participants of this study are more likely to reap the benefits of having motivated staff as the analysis indicate that of 108 respondents, only 4 agreed that they had either none current competency to inadequate competency to listen attentively and understand the views and feelings of others. It can be concluded that Pietermaritzburg SME owner-managers possess the qualities of good leadership as they can communicate efficiently and this can energise, empower and motivate employees to make things happen (Van Aardt *et al*, 2008, p. 265). Mosley, Megginson and Pietri (1997, p. 184) summated that “too many people think that they are wonderful because they have the ability to speak well. What they fail to realise is that being wonderful with people means being able to listen well”. Phibbs (2013) was in agreement with other authors about how owner-managers should have an ability to listen attentively and understand the views and feelings of others when he lamented that best managers do not only have the ability to communicate the message that they are trying to bring across but should also truly listen to those around them.

#### **5.2.2.14 Conclusions on communication skills**

A majority of respondents confidently said that they were fully competent with regards to communication skills. When participants were asked what they thought caused most businesses to fail, they did not identify lack of communication skills as a cause of business failure. Surprisingly, they recommended that communication and listening skills will be some top skills that will be required in future by owner-managers, thereby highlighting the importance of communication skills. This was in line with what Kunene (2008, p. 100) quoted from Nieman and Bennet (2006, p. 99) who advised that, “active listening, clear information and comprehensible communication are very crucial for optimal business performance”. Scarborough and Zimmerer (2000, p. 650) were also in agreement with Nieman and Bennet (2006) regarding communication as a critical component of the life of a business and owner-manager since they need to internally communicate with their workers and to externally communicate with their current and potential customers, suppliers, financiers and other business associates. Kantane, Sloka, Vilcina and Ozolina (2012, p. 114) concluded by saying business communication is not always effective in enterprises and SME owner-managers make a mistake of considering communication as self-evident and not significant. They are often so preoccupied with running their businesses that they might not pay attention to communication (Kantane *et al*. 2012, p. 114).



#### **5.2.2.15 Recommendations on communication skills**

Pietermaritzburg SME owner-managers are advised to continue investing in their communication skills as communication is closely related to the management and leadership of the business and staff (Smorfitt 2008, p. 44). Therefore, it was recommended that the 30% of respondents that showed none to inadequate competency to present to an audience using visual aids to go for training so that they can also experience the benefits of good presentation skills. Kreitner *et al.* (1999, 428) recommended that owner-managers should make use of communication systems like e-mails as they have proven to be critically important in today's business environment. Baron and Shane (2008, p. 154) recommended that owner-managers should attain good and constructive communication with everyone involved in the business in order to eliminate conflicts and misunderstandings that can negatively affect their organisations. Yonatan (2015) recommended the use modern communication technologies like smart phones, radio, television, internet, teleconferencing, videoconferencing, live video chatting, live chat on website, social media platforms (twitter, Facebook and Pinterest) and 24-hour customer care tech support as a way that owner-managers can use to communicate and build real and meaningful relationships with their customers.

### **5.3 ACHIEVEMENTS OF OBJECTIVES**

The following research objectives of this study were identified and achieved in this study:

- To establish which skills owner-managers need to successfully start and manage small businesses.

This objective was achieved in Chapter Two where the literature review highlighted the skills that owner-managers need to successfully start and manage a small business. There has not been much literature that is available about the skills that are needed by owner-managers to manage a small business.

- To conduct a skills audit

A skills audit was conducted through the use of a questionnaire that had a list of skills that owner-managers require to successfully run their enterprises. The questionnaire had statements and owner-managers then had to choose a relevant code that applied to them. An analysis was then carried out and results showed that most owner-managers



agreed that they possessed most of the skills that are required to run a successful business. The results also highlighted that most Pietermaritzburg SME owner-managers needed accounting, finance and bookkeeping skills.

- To evaluate the skills of SME owner-managers in Pietermaritzburg

The evaluation of the skills of Pietermaritzburg SME owner-managers was achieved through analysis of the collected data using the questionnaire. This analysis was provided in chapter 4 and the skills that were evaluated in this study were accounting, finance and bookkeeping, management, marketing, technological and communication skills.

- To critically assess the skills shortcomings of SME owner-managers in Pietermaritzburg in comparison to the required skills of successful entrepreneurs.

Most respondents showed that they were fully competent in most of the skills, but there is need for accounting, finance and bookkeeping skills as most respondents were not fully competent. The lack of finance management skills has been noted as one of the most common causes of businesses failures. Pietermaritzburg owner-managers can be trained on how well they can manage their finances or they can make use of experts like bookkeepers and accountants.

- To recommend steps to match the available skills to the required skills with the help of government, educational institutes and businesses.

This research objective was achieved as recommendations were made to owner-managers on how they can match the available skills and the skills that are required for them to successfully run an SME. The recommendations included how the South African Government, educational institutes and larger and successful businesses can support entrepreneurship and small business owners and managers.

## **5.4 FINAL CONCLUSIONS**

The findings of this research study showed that there are more male owner-managers compared to females therefore indicating the need for more female entrepreneurs in Pietermaritzburg. Most of the respondents (66,6%) said that they had more than a matric certificate (Grade 12) and of that 66,6%, 25% had an undergraduate degree and 29.6 % had a post graduate degree. It then concluded that these results are constant as the overall findings revealed that most Pietermaritzburg owner-managers were competent enough to run their businesses. This also confirmed the claim that the

higher educational level an entrepreneur possesses, the higher their chances of them having the necessary management and entrepreneurship skills that are needed for the effective running of an SME.

With regards to Accounting, finance and bookkeeping skills, most respondents said that they were competent to fully competent. However, there is still need for training in finance and accounting skills for Pietermaritzburg owner-managers because most respondents lacked accounting and finance skills when compared to other skills (management, marketing, technological and communication). Since some of the questionnaires were self-administered, some owner-managers said that they have an accountant or bookkeeper that takes care of the finance side of the business, therefore they answered that they were fully competent. It was therefore concluded that most of those owner-managers did not personally have the competency in accounting and bookkeeping, therefore presenting the need for them to get some training in accounting and finance management.

With regards to management skills, most owner-managers agreed that they possessed the necessary skills for every day running of the business. However, most respondents identified that there is a need for planning skills as lack of planning skills was identified by Pietermaritzburg owner-managers as one of the most important reasons for most business failures. It was also concluded that older (56 years and older) Pietermaritzburg owner-managers had no current competency to solve organisational problems. This might be because the business environment is forever changing making the problems that SMEs face more complex making it so difficult for older people to catch up to the business environment that is forever changing.

When asked on their ability to promote their ability to promote their products and services, a conclusion was made that SME business owners and partners in Pietermaritzburg had no competency or were inadequately competent to promote their products and services. Another conclusion was that Pietermaritzburg SME owner-managers agreed with most authors when they identified that poor management of finances, poor management, lack of finances, poor marketing and market research and poor planning mostly cause SMEs to fail. The final conclusion was that the fact that most PMB owner-managers agreed to being competent to being fully competent in all the skills might be an indication that SMEs in PMB are successful resulting in

KwaZulu-Natal as a province have been contributing significantly towards the country's GDP.

## **5.5 GENERAL RECOMMENDATIONS**

A recommendation was made to all SME owner-managers in Pietermaritzburg to make use of government initiatives that are available to support small businesses. Organisations like Small Enterprise Development Agency (Seda) and the Department of Trade (DTI) are also available to provide management-training programs to businesses in every sector. Pietermaritzburg owner-managers can also make use of business exhibitions where they can meet with other owner-managers and business experts. It was also recommended to those owner-managers who had none to inadequate skills to consult with professionals in whatever areas their skills lacked. It was suggested that due to high costs associated with hiring the services of professional advisers suggested to owner-managers that they make use of retired senior citizens, job seekers and retrenched managers who can provide experienced management services at very reasonable rates (Nieman & Nieuwenhuizen 2009, p. 249).

It was recommended that Pietermaritzburg owner-managers should need training in preparing an income statement and balance sheets because a fair number of respondents agreed having no competency in this regard. It was also recommended to owner-managers who admitted to having an accountant or bookkeeper to take care of the finance aspect of the businesses to go for training and have a basic understanding of accounting so that they can still remain in control and have a bigger picture on what will be happening in their businesses with regard to finance. Some newspaper articles have shown that a few businesses had shut down because the person in charge of finances have been stealing from the company over time and it was too late when the owner realised that the books were tampered with. So having basic accounting knowledge can help owner-managers to avoid situations like these.

A recommendation was made to sole proprietors who lacked competency to prepare and interpret monthly, quarterly and yearly financial reports to go for finance and accounting management training courses or to make use of retired accounting experts. Other inexpensive tool that can be use by owner-managers of SMEs is to make use some software to like Quicken and Banktivity that are easy to use and inexpensive to

purchase to manage the finances of their businesses. Literature revealed that this work out to be cheaper for sole proprietors as it is costly to hire the services of an accounting professional. Pietermaritzburg owner-managers were also advised to constantly get some training on legislation that affects their businesses as there are always changes to legislation and amendments to Acts that if not adhered to, can cause a huge financial penalty to a business. It is the owner-managers' duty to peruse these laws and legislation that affect their business, as there is no excuse to any ignorance to the law.

The findings of this research study showed that there is greater need for Pietermaritzburg owner-managers who lacked the ability to encourage and motivate others and those who acknowledged to having no competency to supervise and direct the work of others to realise the importance of these skills and find ways of how well they can utilise these skills in their organisations. Even though most research respondents agreed that they were competent to delegate managerial skills tasks, the findings indicated that owner-managers need delegation skills that will be required in future by owners-managers, thereby indicating the need for delegation skills in effectively running a business.

From literature reviewed and the findings of this research study, advice to owner-managers to constantly develop their management skills through training in order for them to remain abreast of the ever-changing business environment that would require a different way of doing things. Another recommendation was that business partners and owners who lacked the ability to promote their products and services to realise the importance of promoting their products and services was that they should attend training or consult business experts to train them on how to promote their products and services. Therefore Pietermaritzburg owner-managers were advised to make use of inexpensive ways of marketing like the use of social media platforms and networking. It was also recommended for Pietermaritzburg owner-managers to apply appropriate technologies in their businesses to enhance the growth of their enterprises.

The findings also highlighted that Pietermaritzburg owner-managers lacked the ability to deal with customer complaints therefore training is needed on how well they can efficiently and effectively deal with customer complaints. They should realise that if customer complaints are not handled well, they can lose customers as unsatisfied customers can go elsewhere or they can tell other people about their bad experience

resulting in the organisation losing more customers leading to low sales that can eventually lead to the company shutting down. It was also recommended by research participants when asked about future skills that will be required by owner-managers, most of them recommended that finance management skills, marketing and market research skills, general management and administration skills will be required in the future.

The South African government has to make some labour laws conducive to the development of SMEs and also aggressively promote the services and organisations (for example Seda) that are available to support small businesses for free. It is also recommended to the South African government that they should advertise on media platforms (such as radio, TVs, newspapers, internet and social media platforms,) that are inexpensive for SME owner-managers to access about the initiatives that are available to small business to help them deal with the issue of skills shortages and skills development. The use of vernacular languages to advertise can also help those owner-managers who are not too proficient in English. In Pietermaritzburg, newspapers like, Echo, Public Eye, Maritzburg are offered for free and the government can use them as a platform to let the entrepreneurs know about the services available to help their businesses to survive and grow.

A recommendation to primary and secondary schools is to teach entrepreneurship and management skills at very early stages in order to increase the skills levels and stir the desire for school children to become entrepreneurs even at a young age. It was recommended to University and FETs to teach practical skills that owner-managers will need in real life to run successful businesses than just theory content that students will never use after leaving the university or technikon.

## **5.6 SIGNIFICANCE OF THE FINDINGS**

The skills that were identified for the purposes of this study were accounting, finance and bookkeeping, management, marketing, technological and communication skills. This research study also provided acumen in the areas that Pietermaritzburg owner-managers are excelling in and areas that need improvement so the skills gaps were identified and ways on how well to fill in the gaps were provided. Lekhanya (2015, 411) stressed on the need for studies on key business skills that are required by entrepreneurs as well as “the most effective ways of offering training”. This study

therefore looked at the skills required by SME owner-managers to run a successful business and PMB owner-managers also provided a list of skills that they thought would be needed in future by SME owner-managers, thereby presenting the skills that are needed by entrepreneurs.

The aim of this study was therefore to identify the available skills and future skills needs of some selected SMEs in Pietermaritzburg. The recommendations that were made to the South African government, educational institutes and businesses to match the available skills and the required skills will contribute immensely into the field of entrepreneurship and skills development.

## **5.7 NEED FOR FURTHER RESEARCH**

Maes *et al.* (1997, p. 69) said that despite the importance of managerial competencies, a number of studies have attempted but failed to identify the complete range of competencies that are required for effective performance. Kew and Macquet (2002) in Lekhanya (2015, p. 411) further indicated that there need for studies that identify the key business and management skills that are required by entrepreneurs and what ways are most effective in offering the training. Therefore, there is still need for further study on skills that are required by SMEs to successfully run their businesses. There is also need for a study of this nature in more areas around KwaZulu-Natal, South Africa and other countries. The research findings for all these studies can then be compared to each other.

## **5.8 CONCLUSION**

The analysed data revealed that most Pietermaritzburg owner-managers who were participants of this research agreed that they were competent and fully competent with regard to accounting, finance and bookkeeping skills. However, when compared to the other skills (management, marketing, technical and communication skills), most respondents disagreed that they possessed accounting, finance and bookkeeping skills with a mean of 2.98. It was recommended that financial training should be provided to those owner-managers who have none to inadequate competency and it was also advised that they should make use of finance experts (accountants and bookkeepers).

Lack of management competencies was identified as one of the most common causes of small businesses failure. The findings of this study showed that most Pietermaritzburg SME owner-managers agreed that they possessed the necessary management skills. Even though most research participants agreed to being competent in management skills, they also agreed that management skills are among the skills that will be required in future by SME owner-managers. With regards to marketing skills, most participants agreed that they were competent and fully competent. However they also identified that poor marketing and lack of market research skills are some of the most common causes for business failure. The use of newspapers and social media turn out to be cheaper for those owner-managers who find it expensive to market their products. Pietermaritzburg SME owner-managers can take advantage of networking opportunities as part of their marketing strategy.

Even though the findings of this study highlighted that most owner-managers in Pietermaritzburg were technologically competent, they were advised to constantly upgrade their operational and production techniques in order to cope with the ever-changing technologies. When respondents were asked about what they thought caused most businesses to fail, they did not identify lack of communication skills but they urged that communication and listening skills are some of the skills that will be needed in future.

This chapter provided some discussion in terms of the skills of owner-managers of SMEs in Pietermaritzburg. The reason might be because since the research participants are members of Pietermaritzburg Chamber of Business, they possess the required skills or they can afford to hire experts and make use of them. The findings revealed that sole proprietors needed some training as they showed a skills gap. Limitations to the study were also noted, the contributions of the study were also highlighted and so was the need for future research. Conclusions on the findings were made and recommendations to owner-managers, government and educational institutes were indicated. Overall, the research objectives of this study were met.

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# APPENDIX A: ETHICAL CLEARANCE LETTER



29 June 2016

**Ms Cynthia Mlambo (205511730)**  
**School of Management, IT & Governance**  
**Pietermaritzburg Campus**

Dear Ms Mlambo,

**Protocol reference number: HSS/0258/013M**

**New project title:** A skills audit of selected Pietermaritzburg Small Medium Enterprise (SME) owner-managers: A critical assessment

## Full Approval Notification – Amendment Application

This letter serves to notify you that your application for an amendment dated 17 May 2016 has now been Approved as follows:

- Change in Title

Any alterations to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form; Title of the Project, Location of the Study must be reviewed and approved through an amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.

**PLEASE NOTE:** Research data should be securely stored in the discipline/department for a period of 5 years.

**Recertification must be applied for after 3 years of original issue.**

Best wishes for the successful completion of your research protocol.

Yours faithfully

.....  
**Dr Shamila Naidoo (Deputy Chair)**

/ms

cc Supervisor: Dr Ziska Fields  
cc Academic Leader Research: Professor B McArthur  
cc School Administrator: Ms D Cunyngame

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Humanities & Social Sciences Research Ethics Committee

Dr Shenuka Singh (Chair)

Westville Campus, Govan Mbeki Building

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## APPENDIX B: INFORMED CONSENT LETTER

UNIVERSITY OF KWAZULU-NATAL  
School of Management, IT and Governance

Dear Respondent,

**M Com Research Project**

**Researcher:** Cynthia Mlambo 072 755 1796

**Supervisor:** Dr Ziska Fields 031- 260 8103

**Research Office:** Ms P Ximba 031-2603587

I, Cynthia Mlambo am an M Com Research Project student in the School of Management, IT and Governance, at the University of KwaZulu-Natal. You are invited to participate in a research project entitled: *A skills audit of selected Pietermaritzburg Small Medium Enterprises (SMEs) owner-managers: a critical assessment.*

The aim of this study is to conduct a skills audit for owner-managers of selected Small Medium Enterprises (SMEs) in Pietermaritzburg to prevent business failure rates.

Through your participation I hope to understand what are the skills do owner-managers lack that are likely to cause most business failures. The results of this survey is intended to contribute with necessary recommendations to government, educational institutes and businesses that will help them to fill in the skills gaps and thereby ensuring that SMEs become more productive, effective and resulting in increased employment, which will then have a positive effect on the country's economy.

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this research project. Confidentiality and anonymity of records identifying you as a participant will be maintained by the [School Management, IT and Governance], UKZN. If you have any questions or concerns about participating in this study, please contact me or my supervisor at the numbers listed above.

It should take you about ten minutes to complete the questionnaire. I hope you will take the time to complete the questionnaire.

Sincerely

Investigator's signature.....

Date.....

*This page is to be retained by participant*

# APPENDIX C: INFORMED CONSENT FORM

UNIVERSITY OF KWAZULU-NATAL  
School of Management, IT and Governance

## M Com Research Project

**Researcher:** Cynthia Mlambo 072 755 1796

**Supervisor:** Dr Ziska Fields 031- 260 8103

**Research Office:** Ms P Ximba 031-2603587

## CONSENT

I \_\_\_\_\_ (full names of participant) hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project. I understand that I am at liberty to withdraw from the project at any time, should I so desire.

\_\_\_\_\_  
Signature of Participant

\_\_\_\_\_  
Date

*This page is to be retained by researcher*

## APPENDIX D: QUESTIONNAIRE

### INSTRUCTIONS

Please read each question carefully.

Please complete the whole questionnaire.

Please answer the questions as honest as possible

### SECTION A: DEMOGRAPHIC DETAILS

*Please provide the following demographic data by putting a mark in the appropriate box*

1. Gender: Male ☐ 1 Female ☐ 2

2. Are you the : Owner ☐ 1 Partner ☐ 2  
Manager ☐ 3

3. Race:

Black	White	Indian	Colored	Other
1	2	3	4	5

4. What is your age group

18 - 25 Years	26 - 35 Years	36 - 45 Years	46 - 55 Years	56 and Older
1	2	3	4	5

5. Highest level of qualification completed:

Less than Matric ☐ 1 Matric ☐ 2

Undergraduate Degree ☐ 3 Post Graduate Degree ☐ 4

Other (Specify) 5 .....

### SECTION B: GENERAL ORGANISATION DETAILS

*Please fill in this section by putting a mark on the appropriate box*

1. Your current organisation's sector:

Information Technology ☐ 1 Transport ☐ 2 Education ☐ 3

Retail ☐ 4 Insurance ☐ 5 Manufacturing

☐ 6

Construction ☐ 7 Tourism and Hospitality ☐ 8

Other (Specify) 9 .....

2. Number of employees in your organisation:

1 – 9 ☐ (1)

10 – 30 ☐ (2)

31 – 60 ☐

(3)

61– 80 ☐ (4)

81– 100 ☐ (5)

> 100 ☐

(6)

3. Are you registered as a:

Sole proprietor (1)	Partnership (2)	Close Corporation (3)	Private Company (4)	Do not know (5)	Other (specify) (6)

4. How long has your company been in this business?(Please indicate the number of years)

---

### Section C: Skills of owner- managers.

*Please read the following statements carefully and respond to them as honestly as possible, using the following codes:*

1 = No current knowledge or skill (no current competency).

2 = Some awareness but not sufficiently competent to use it (incompetency).

3 = Familiar with and able to use the knowledge or skill (some competency).

4 = Expert with high degree of skill/ comprehensive knowledge and is able to show others how to use it (fully competent).

*Please tick the appropriate case.*

	<b>(1) Accounting, finance and bookkeeping skills</b>	No competency	Inadequate competency	Some competency	Fully competent
1	Preparing income statement.	1	2	3	4
2	Preparing balance sheet.	1	2	3	4
3	Analysing income and expenditure.	1	2	3	4
4	Preparation and interpretation of monthly, quarterly or yearly financial reports.	1	2	3	4
5	Knowledge on tax legislation including VAT, PAYE, UIF etc.	1	2	3	4

	<b>(2) Management skills</b>	No current competency	Inadequate competency	Some competency	Fully competent
1	Evaluating competing priorities in order to plan ahead.	1	2	3	4
2	Ability to encourage and motivate others	1	2	3	4
3	Ability to supervise or direct work of others.	1	2	3	4
4	Ability to manage time.	1	2	3	4
5	Ability to delegate managerial tasks.	1	2	3	4
6	Ability to access the Strength, Weakness, Opportunities and Threats (SWOT) of your business.	1	2	3	4
7	Awareness of competitive advantage over competitors	1	2	3	4

8	Ability to set down a sequence of managerial activities.	1	2	3	4
9	Ability to solve organisational problems.	1	2	3	4

	<b>(3) Marketing skills</b>	No current competency	Inadequate competency	Some competency	Fully competent
1	Knowledge on advertising your products and services.	1	2	3	4
2	Revising of pricing of your products and services.	1	2	3	4
3	Promoting of your products and services.	1	2	3	4
4	Selecting distribution channels appropriate for your products and services.	1	2	3	4
5	Evaluating customer satisfaction.	1	2	3	4
6	Dealing with customer complaints.	1	2	3	4
7	Marketing strategies of the organisation.	1	2	3	4
8	Ability to generate new ideas.	1	2	3	4
9	Ability to efficiently respond to customer requests and use sensitivity and discretion when dealing with customers.	1	2	3	4
10	Good knowledge of relevant legislation that affects your business.	1	2	3	4



	<b>(4) Technological skills</b>	No current competency	Inadequate competency	Some competency	Fully competent
1	Ability to create, store and retrieve files from the computer	1	2	3	4
2	Ability to use word processing package to produce a variety of formats of documents	1	2	3	4
3	Ability to prepare and interpret monthly, quarterly or yearly financial reports.	1	2	3	4
4	Ability to send and receive e-mail	1	2	3	4
5	Ability to use search engine, for example Google.	1	2	3	4

	<b>(5) Communication skills</b>	No current competency	Inadequate competency	Some competency	Fully competent
1	Ability to speak clearly and concisely.	1	2	3	4
2	Ability to present to an audience using visual aids.	1	2	3	4
3	Ability to persuade, negotiating and getting an agreement that is acceptable to both parties.	1	2	3	4
4	Ability to listen attentively and to understand views and feelings of others.	1	2	3	4

### Section D: General Questions

1. What in your opinion cause most businesses to fail?


2. Please indicate some of the skills that in your opinion will be required in future by owner-managers.


*Thank you for your participation and valuable information.*